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105th Congress, 2nd Session — — — — — House Report 105-664

**MAKING THE FEDERAL GOVERNMENT AC-  
COUNTABLE: ENFORCING THE MANDATE  
FOR EFFECTIVE FINANCIAL MANAGEMENT**

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**THIRD REPORT**

BY THE

**COMMITTEE ON GOVERNMENT  
REFORM AND OVERSIGHT**together with  
**ADDITIONAL VIEWS**

JULY 31, 1998.—Committed to the Committee of the Whole House on  
the State of the Union and ordered to be printed

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## LETTER OF TRANSMITTAL

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HOUSE OF REPRESENTATIVES,  
*Washington, DC, July 31, 1998.*

Hon. NEWT GINGRICH,  
*Speaker of the House of Representatives,*  
*Washington, DC.*

DEAR MR. SPEAKER: By direction of the Committee on Government Reform and Oversight, I submit herewith the committee's third report to the 105th Congress. The committee's report is based on a study conducted by its Subcommittee on Government Management, Information, and Technology.

DAN BURTON,  
*Chairman.*



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## ABBREVIATIONS

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|       |                                                      |
|-------|------------------------------------------------------|
| BAPA  | Budget and Accounting Procedures Act of 1950         |
| CFO   | Chief Financial Officer                              |
| DOD   | Department of Defense                                |
| FASAB | Federal Accounting Standards Advisory Board          |
| FFMIA | Federal Financial Management Improvement Act of 1996 |
| FMFIA | Federal Managers' Financial Integrity Act of 1982    |
| GAGAS | Generally Accepted Government Auditing Standards     |
| GAO   | General Accounting Office                            |
| GMRA  | Government Management Reform Act of 1994             |
| GPRA  | Government Performance and Results Act of 1993       |
| HCFA  | Health Care Financing Administration                 |
| HHS   | Department of Health and Human Services              |
| IRS   | Internal Revenue Service                             |
| OMB   | Office of Management and Budget                      |
| SFFAC | Statement of Federal Financial Accounting Concepts   |
| SFFAS | Statement of Federal Financial Accounting Standards  |
| SGL   | Standard General Ledger                              |
| SSA   | Social Security Administration                       |

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| 105TH CONGRESS }<br>2nd Session } | HOUSE OF REPRESENTATIVES { | REPORT<br>105-664 |
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### MAKING THE FEDERAL GOVERNMENT ACCOUNTABLE: ENFORCING THE MANDATE FOR EFFECTIVE FINANCIAL MANAGEMENT

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JULY 31, 1998.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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Mr. BURTON, from the Committee on Government Reform and Oversight, submitted the following

### THIRD REPORT

On July 23, 1998, the Committee on Government Reform and Oversight approved and adopted a report entitled “Making the Federal Government Accountable: Enforcing the Mandate for Effective Financial Management.” The chairman was directed to transmit a copy to the Speaker of the House.

#### I. SUMMARY OF OVERSIGHT FINDINGS AND RECOMMENDATIONS

##### A. INTRODUCTION

The Committee on Government Reform and Oversight (the “committee”) has primary legislative and oversight jurisdiction with respect to “[g]overnment management and accounting measures, generally,” as well as “overall economy, efficiency and management of government operations and activities.” (Rules of the House of Representatives, 105th Congress, X, 1(g)(4) and (6). The committee also has responsibility to:

review and study . . . the application, administration, execution, and effectiveness of those laws, or parts of laws, the subject matter of which is within the jurisdiction of [the] committee and the organization and operation of the Federal agencies and entities having responsibilities in or for the administration and execution thereof, in order to determine whether such laws and the programs thereunder are being implemented and carried out in accordance with the intent of the Congress. . . . In addition,

[the] committee shall review and study any conditions or circumstances which may indicate the necessity or desirability of enacting new or additional legislation within the jurisdiction of [the] committee. (Rules of the House of Representatives, 105th Congress, X, 2(b) (1) and (2)).

Pursuant to this authority, the Subcommittee on Government Management, Information, and Technology (the “subcommittee”) convened seven oversight hearings to explore:

- The implementation of laws related to Federal financial management in executive departments and agencies and, in particular, the first year of full implementation of the Chief Financial Officers Act of 1990 (the “CFO Act”), as expanded by the Government Management Reform Act of 1994 [GMRA] and amended by the Federal Financial Management Improvement Act of 1996 [FFMIA];
- The extent to which Federal executive departments and agencies were successful in applying the requirements of these laws;
- The need for congressional action to improve financial management in the Federal Government; and
- Options for congressional actions that would effectively bring about such improvement.

Billions of dollars paid by taxpayers are being lost each year to fraud, waste, abuse, and mismanagement in hundreds of programs in the Federal Government. Audits have revealed, for example, that the Health Care Financing Administration [HCFA], which administers the Medicare program, overpaid claims by more than \$20.3 billion in just 1 year (fiscal year 1997), according to estimates by the Inspector General of the Department of Health and Human Services [HHS].<sup>1</sup>

In the late 1980’s, Congress recognized that one of the root causes of this loss was that the Federal Government’s financial management leadership, policies, systems, and practices were in a state of disarray. Financial systems and practices were obsolete and ineffective. They failed to provide complete, consistent, reliable, and timely information to congressional decisionmakers and agency management.

In response, Congress passed a series of laws designed to improve financial management practices and to ensure that tax dollars are spent for the purposes that Congress intends. Each executive agency covered by the CFO Act or specified by the Office of Management and Budget [OMB] is required to prepare and have audited a financial statement covering all accounts and associated activities of each office, bureau, and activity of the agency. Further, consolidated governmentwide financial statements must be prepared and audited annually. In addition, Federal agencies are required to conform with promulgated Federal Government accounting and systems standards, and to use the Federal Standard General Ledger.

<sup>1</sup>Testimony of June Gibbs Brown, Inspector General, Department of Health and Human Services on the Audit of Health Care Financing Administration Financial Statements before the House Committee on Government Reform and Oversight, Subcommittee on Government Management, Information, and Technology, and the Committee on Commerce, Subcommittee on Oversight and Investigations and Subcommittee on Health and Environment, Apr. 24, 1998.

As a result of the passage and implementation of these laws, limited progress has been made. However much remains to be done before the Federal Government's financial management systems and practices provide reliable, timely financial information on a regular basis.

#### B. OVERVIEW OF INVESTIGATION

March 31, 1998, marked a significant milestone in the implementation of financial management reform legislation. The CFO Act, Public Law 101-576, as expanded by GMRA, Public Law 103-356, required—for the first time ever—the preparation and audit of consolidated financial statements of the Federal Government for fiscal year 1997.<sup>2</sup> GMRA required that the General Accounting Office [GAO] issue an audit report no later than March 31, 1998, on the consolidated financial statements for the preceding fiscal year.

GMRA also required that, starting March 1, 1997, and each year thereafter, all 24 Federal agencies subject to the requirements of the CFO Act submit audited financial statements to the Director of OMB.<sup>3</sup> These 24 Federal agencies make up approximately 97 percent of the total Federal outlays for fiscal year 1997.

Fiscal year 1997 also marked the first year of implementation of FFMIA, Public Law 104-208. The purpose of FFMIA is to ensure that agency financial management systems comply with Federal financial management system requirements, applicable Federal accounting standards, and the *U.S. Government Standard General Ledger* (Standard General Ledger)<sup>4</sup> in order to provide uniform, reliable, and useful financial information. FFMIA required that beginning with the fiscal year ending September 30, 1997, auditors for each of the 24 major departments and agencies named in the CFO Act must report, as part of their annual audits of the agencies' financial statements, whether the agencies' financial systems comply substantially with Federal financial systems requirements,<sup>5</sup> applicable Federal accounting standards,<sup>6</sup> and the Standard General Ledger at the transaction level. FFMIA also requires GAO to

<sup>2</sup>The Consolidated Financial Statements of the U.S. Government for fiscal year 1997 cover the executive branch as well as parts of the legislative and judicial branches of the Federal Government. Government-sponsored enterprises and the Federal Reserve System are excluded.

<sup>3</sup>The 24 Federal agencies covered by the requirements of the CFO Act are the following: the Department of Agriculture; the Department of Commerce; the Department of Defense; the Department of Education; the Department of Energy; the Department of Health and Human Services; the Department of Housing and Urban Development; the Department of the Interior; the Department of Justice; the Department of Labor; the Department of State; the Department of Transportation; the Department of the Treasury; the Department of Veterans Affairs; the Environmental Protection Agency; the National Aeronautics and Space Administration; the Agency for International Development; the Federal Emergency Management Agency; the General Services Administration; the National Science Foundation; the Nuclear Regulatory Commission; the Office of Personnel Management; the Small Business Administration; and the Social Security Administration.

<sup>4</sup>The *U.S. Government Standard General Ledger* provides a standard chart of accounts and standardized transactions that agencies are to use in all their financial systems.

<sup>5</sup>OMB Circular No. A-127, "Financial Management Systems," July 1993, prescribes the financial management systems policies and standards for executive agencies to follow in developing, operating, evaluating, and reporting on financial management systems. Circular A-127 references the series of publications entitled Federal Financial Management Systems requirements, issued by the Joint Financial Management Improvement Program, as the primary source of governmentwide requirements for financial management systems.

<sup>6</sup>The Comptroller General of the United States and the Director of the Office of Management and Budget have issued a comprehensive set of accounting standards that will be fully effective in fiscal year 1998.

report on agency implementation of provisions of FFMIA by October 1, 1997, and each year thereafter.

It is imperative that these acts are implemented successfully. They form the basis for the data that is to be used in measuring program performance under the Government Performance and Results Act, Public Law 103-62 (the "Results Act"). Thus, strong congressional oversight, at a minimum, is needed to ensure the primary goal of all these pieces of legislation—a Federal Government that is accountable to the American taxpayer—is achieved.

### C. FINDINGS

Based on the investigation and oversight hearings conducted by the subcommittee, as well as on the governmentwide audit conducted by the GAO, the committee finds as follows:

#### *1. There are Material Deficiencies in Federal Financial Information*

For the first time, Congress was provided a concise accounting for the myriad financial management problems faced by the Federal Government. A report by the GAO<sup>7</sup> confirmed that *at least* tens of billions of taxpayers' dollars are being lost each year to fraud, waste, abuse, and mismanagement in hundreds of Federal Government programs. Government financial management is in disarray. Its financial systems and practices are obsolete and ineffective and do not provide complete, consistent, reliable, and timely information to the President, congressional decisionmakers, and agency management. The information in the financial statements was so poor that the auditors were not able to determine the adjustments necessary to make the information reliable.

The GAO report provided a synopsis of the significant weaknesses found in the financial systems, problems with fundamental recordkeeping, incomplete documentation, and weak internal controls, including computer controls. These weaknesses prevent the Federal Government from accurately reporting a large portion of its assets, liabilities, and costs. According to the GAO, "[t]hese deficiencies affect the reliability of the consolidated financial statements and much of the underlying financial information." And, more important, these problems "... also affect the [Federal Government's] ability to accurately measure the full cost and financial performance of programs and effectively and efficiently manage its operations."<sup>8</sup>

Major problems prevented the GAO from being able to form an opinion on the reliability of the governmentwide financial statements. These problems included the Federal Government's inability to:

- properly account for and report on billions of dollars of property, equipment, materials, and supplies;
- properly estimate the cost of most Federal credit programs and related loans receivable and loan guarantee liabilities;
- estimate and report material amounts of environmental and disposal liabilities and related costs;

<sup>7</sup> "Financial Audit: 1997 Consolidated Financial Statements of the United States Government," GAO/AIMD-98-127, Mar. 31, 1998.

<sup>8</sup> *Ibid.*, p. 14.

- determine the amount of various reported liabilities, including postretirement health benefits for military and Federal civilian employees, veterans compensation benefits, accounts payable, and other liabilities;
- accurately report major portions of the net costs of government operations;
- determine the full extent of improper payments that occur in major programs and that are estimated to involve billions of dollars annually;
- properly account for billions of dollars of basic transactions, especially those between government entities;
- ensure that the information in the consolidated financial statements is consistent with agencies' financial statements;
- ensure that all disbursements are properly recorded; and
- effectively reconcile the change in net position reported in the financial statements with budget results.

The oversight hearings held by the Government Management, Information, and Technology Subcommittee on financial management at key executive branch agencies explored specific problems and potential solutions at each. Based on Inspector General financial audit reports of the 24 CFO Act agencies, only 10<sup>9</sup> could prepare financial statements that were reliable in all material respects based on the results of independent audits.

## *2. There are Material Control Weaknesses in Federal Financial Systems*

The General Accounting Office also reported several pervasive material weaknesses in internal controls across the Federal Government.<sup>10</sup> These material weaknesses in internal control contributed to the deficiencies described above. These weaknesses result in ineffective controls over safeguarding the Federal Government's assets from unauthorized acquisition, use, or disposition, ensuring that transactions are executed in accordance with laws governing the use of budget authority and with other laws and regulations, and ensuring the reliability of financial statements.

Specifically, GAO found widespread computer control weaknesses and material weaknesses in controls related to the Federal Government's tax collection activities. GAO stated in its report that "[w]idespread computer control weaknesses are placing enormous amounts of [F]ederal assets at risk of fraud and misuse, financial information at risk of unauthorized modification or destruction, sensitive information at risk of inappropriate disclosure, and critical operations at risk of disruption. . . . The consequences of computer control weaknesses could be devastating and costly—for instance, placing billions of dollars of payments and collections at risk of fraud and impairing military operations. In addition to these potential consequences at [the Departments of the] Treasury

<sup>9</sup>As of the date of this report, 3 of the 24 agencies required to issue audited financial statements by Mar. 1, 1998, had not done so.

<sup>10</sup>A material weakness, as defined by the American Institute of Certified Public Accountants in its *Statements of Auditing Standards* and in the Comptroller General's *Government Auditing Standards*, is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements may occur and not be detected promptly by employees in the normal course of performing their duties.

and Defense, identified weaknesses at agencies such as the Department of Health and Human Service's Health Care Financing Administration and the Social Security Administration place sensitive medical and other personal records at risk of disclosure."<sup>11</sup>

With respect to tax collection activities, the GAO reported that "the [F]ederal [G]overnment has material weaknesses in controls . . . which effect its ability to efficiently and effectively account for and collect the government's revenue. . . . As a result, the government cannot separately report revenue for three of the four largest revenue sources—Social Security, Hospital Insurance, and individual income taxes." GAO further reported that "serious weaknesses . . . affect the [F]ederal [G]overnment's ability to effectively manage its taxes receivable and unpaid assessments."<sup>12</sup> The lack of appropriate subsidiary systems to track the status of taxpayer accounts affects the government's ability to make informed decisions about collection efforts. Additionally, the [F]ederal [G]overnment is vulnerable to loss of tax revenue due to weaknesses in controls over disbursements for tax refunds."<sup>13</sup>

The prevalence of weak internal controls in Federal Government systems is exemplified by the fact that only 8 of the 24 CFO Act agencies' auditors reported that they did not discover material weaknesses during the course of their audits of fiscal year 1997 financial statements.

### *3. There is Pervasive Noncompliance with Laws and Regulations*

Also contributing to the Federal Government's financial management problems were material noncompliance with laws and regulations. GAO reported that "tests for compliance with selected provisions of laws and regulations related to financial reporting disclosed that . . . the [F]ederal [G]overnment makes improper payments on major programs such as Medicare." Further, most agencies were not in compliance with FFMIA which requires auditors performing financial audits to report whether agencies' financial management systems comply substantially with Federal accounting standards, financial systems requirements, and the government's Standard General Ledger at the transaction level. GAO also reported that "the majority of [F]ederal agencies' financial management systems are not designed to meet current accounting standards and systems requirements and cannot provide reliable financial information for managing government operations and holding managers accountable."<sup>14</sup> Only 4 of the 24 agencies required to issue audited financial statements were reported by its auditors to be in compliance with the requirements of FFMIA.

<sup>11</sup>"Financial Audit: 1997 Consolidated Financial Statements of the United States Government," GAO/AIMD-98-127, Mar. 31, 1998, pp. 20-21.

<sup>12</sup>Other unpaid assessments consist of amounts for which (1) neither the taxpayer nor a court has affirmed that the amounts are owed and (2) the government does not expect further collections due to factors such as the taxpayer's death, bankruptcy, or insolvency.

<sup>13</sup>"Financial Audit: 1997 Consolidated Financial Statements of the United States Government," GAO/AIMD-98-127, Mar. 31, 1998, pp. 21-22.

<sup>14</sup>Ibid., pp. 22-23.

*4. The Year 2000 Computing Crisis Poses a Significant Threat to Federal Financial Systems*

A final factor affecting financial management in the Federal Government reported by the GAO was the year 2000 computing crisis.<sup>15</sup> This critical issue has been the subject of extensive oversight by the subcommittee. According to the GAO, “the Federal Government is extremely vulnerable due to widespread dependence on computer systems to process financial transactions and management information, deliver vital public services, and carry out its operations.”<sup>16</sup> Few agencies in the Federal Government are addressing this problem at a rate that will allow them to pass the millennium date without failure or disruption of their operations.

*5. The Role of the Inspector General in Improving Federal Financial Management Can be Strengthened*

In the 20 years since the passage of the Inspector General Act, much has changed in the way the Federal Government manages its programs and operations. New management laws now being implemented are dramatically changing the accountability of the Federal Government, and demanding that Inspectors General shift their operational focus.

Under the Chief Financial Officers Act of 1990, as amended by the Government Management and Reform Act of 1994, the Inspectors General have new responsibilities to ensure that Congress has complete, reliable financial information. These new responsibilities include the audit of the financial statements of the department or agency for which the Inspector General is responsible and any sub-components of the department or agency required to have a separate statement. These audits, performed under Generally Accepted Government Auditing Standards, require that the auditor perform procedures and report on the agencies’ internal controls and compliance with laws and regulations as well as report on the condition of the financial statements and related notes thereto.

H.R. 2883, the “Government Performance and Results Act Technical Amendments of 1998” passed the House of Representatives on March 12, 1998, and is now being considered in the Senate. If enacted, this measure will require agencies to revise their strategic plans and resubmit them by the end of fiscal year 1998, and includes a provision requiring Inspectors General to audit agency performance measures.

The proper role and function of Offices of Inspectors General was the focus of an April 21, 1998, Government Management, Information, and Technology Subcommittee hearing. At the hearing it was revealed that while Inspectors General continue to report billions in waste, fraud and abuse found in agency programs, little attention is being paid to prevention of these problems. For this reason, the effectiveness of Inspector General reports to officials and to

<sup>15</sup>For the past several decades, information systems have typically used two digits to represent the year, such as “98” for 1998, in order to conserve electronic data storage and reduce operating costs. In this format, however, the year 2000 is indistinguishable from the year 1900 because both are represented as “00.” As a result, if not modified, computer systems or applications that use dates or perform date- or time-sensitive calculations may generate incorrect results beyond 1999.

<sup>16</sup>“Financial Audit: 1997 Consolidated Financial Statements of the United States Government,” GAO/AIMD-98-127, Mar. 31, 1998, p. 23.

Congress has been questioned. There is also concern that Inspectors General are not reporting agency problems or burying their recommendations deep within their semi-annual reports.

Also, the qualifications of candidates for Inspectors General positions has come into question. Inspectors General need to be appointed based on their demonstrated leadership ability and experience. According to Senator Susan Collins (R-Maine), chairman of the Senate Subcommittee on Investigations of the Committee on Governmental Affairs, “[the Inspectors General] are the very officials in government whom we look to to combat waste, fraud and abuse and as such they should be held to a higher standard and be above reproach.”<sup>17</sup>

The subcommittee also found that there is no cohesive leadership for the Inspector General community. The President’s Council on Integrity and Efficiency, established during the Reagan Administration, does some coordination. However, there is no real commitment at the highest levels of Government to provide leadership.

#### *6. Greater Financial Management Leadership is Needed*

Clear leadership at the senior levels of the Federal Government is needed to successfully implement financial management initiatives. The capacity of senior leadership at OMB has been met. Further, emphasis is placed on the cyclical demands of the budget. As a result, OMB’s management responsibilities have not been given the attention required. Many critical management issues, such as financial management and information systems management, currently facing the administration are going unheeded. For example, only after almost 2 years of congressional urging, did the administration establish a separate task force to deal with the year 2000 issue. While this action was applauded, it was too long overdue.

Similarly, at Federal departments and agencies, attention to the pressing need for effective financial and information systems management is not always given the required degree of attention. Many departments and agencies still have individuals responsible for financial management leadership—the Chief Financial Officer—serving in other equally challenging roles. Of the 24 CFO Act agencies, 4 have Chief Financial Officers serving in the role of the Chief Information Officer as well. Further, seven agency Chief Financial Officers are also serving in the capacity of a Chief Operations Officer, in charge of overall agency administration.<sup>18</sup> Federal departments and agencies, typically, are large organizations with complex missions. As such, it is critical that these agencies have a strong management team to operate effectively and efficiently.

Further, stronger leadership is needed from OMB to provide greater cohesiveness in the Inspector General community. This leadership is needed to ensure that the Inspectors General adhere to the highest standards of conduct. There is a need to support the role of the Inspector General to foster better teamwork between the

<sup>17</sup>Testimony of Senator Susan Collins, chairman of the Permanent Subcommittee on Investigations of the Committee on Governmental Affairs of the Senate, before the Subcommittee on Government Management, Information, and Technology of the Committee on Government Reform and Oversight of the House of Representatives on Apr. 21, 1998.

<sup>18</sup>Testimony of Thomas Schatz, president, Citizens Against Government Waste, June 18, 1998.

Offices of the Inspector General and agency senior management in order to resolve agency problems.

#### D. RECOMMENDATIONS

Based on the foregoing findings, the committee recommends the following:

*1. Require Agencies to be Accountable to Congress and the President through Regular Oversight*

Strong congressional oversight has proven to be an effective tool to push executive departments and agencies to implement necessary reforms. To build upon this, Congress needs to mandate formal oversight hearings to review the status of agency financial management and actions to resolve related problems.

Each department or agency must annually provide a detailed status report on its financial management operations. In turn, as appropriate, each department or agency should be reviewed on a regular basis by the relevant oversight, authorization, and appropriations committees. These hearings can be held quarterly, semiannually, or annually with the frequency dependent on the severity of the agency's problems.

Agencies with outstanding financial management problems are required by FFMIA to prepare a "remediation plan." This plan needs to be of sufficient detail to provide a road map for agency management and staff to resolve any reported problems in adhering to Federal Government accounting and systems standards, and the implementation of the Government Standard General Ledger. Congressional oversight hearings need to include a discussion of the agency's plan and the progress being made toward resolving outstanding problems with its various financial systems and practices. The oversight hearings need to include the department or agency's Inspector General who is responsible for reporting on the agency's compliance with the Federal Financial Management Improvement Act of 1996.

To be successful, the agency remediation plans must provide a detailed description of planned actions with clear and reasonable milestones including the naming of specific staff responsible for resolving a particular issue. Such a plan should be signed off by the agency head and the relevant management officials of the agency such as the Chief Financial Officer, the Chief Information Officer, and the Inspector General. A draft of the approved plan needs to be sent to the Comptroller General to coordinate the agency's actions and related milestones in the remediation plan and agree to the plan. A draft of the plan should be available to the relevant congressional committees, and the Director of OMB, for such advice as they may provide. These parties must meet regularly to monitor the progress toward meeting the objectives of the plan. Congress can then effectively monitor agency actions and take corrective actions as necessary.

*2. Provide Incentives to Agencies to Have Effective Financial Management*

Congressional oversight alone cannot effect necessary change in the financial management practices of all departments and agen-

cies. Incentives are needed to prompt agencies to take proactive measures to quickly resolve outstanding financial management problems. If an agency is unable or unwilling to effect crucial changes in its financial management systems and practices, Congress should take action. Possible actions include: (1) redirecting a percentage of the agency's appropriated funds to correct financial management problems from other programmatic or administrative areas; (2) restricting the use of a percentage of the agency's appropriated funds until the problems are corrected; or (3) reducing various amounts of appropriated funds to the agency until remedial actions are completed. These actions are intended to provide incentive to the agency to resolve its financial management problems in an expeditious manner.

Further, Congress and the administration must hold agency officials responsible for not meeting planned milestones (within reasonable limits). If the officials responsible for the problem cannot resolve it, then the officials responsible should be removed from Federal service. Congress must also take action to restrict the activities of the agency in its ability to participate in or compete with other agencies or private sector entities for contracts for goods and services (i.e., commercial enterprises) until it has resolved its financial management problems.

Congress should mandate that oversight boards be established in those circumstances in which an agency has been unable or unwilling to resolve its financial management problems, after other actions described above have failed. These recalcitrant agencies are those that meet the following criteria:

- the number of years problems have existed is excessive;
- the magnitude of the problems to the operations of the agency is material; and
- the magnitude of the problems to the Federal Government as a whole is material.

### *3. Strengthen the Ability of the Inspector General to Carry out their Financial Management Oversight Responsibilities*

Inspectors General are responsible for conducting audits of agencies programs and operations. The audit function in the executive branch is crucial. Executive branch agency audits provide information to executive branch managers and Congress which are necessary to uncover and resolve problems impeding effective financial management. To ensure that the Offices of the Inspector General can provide audit services of the utmost quality and integrity, it is imperative that Congress take steps to ensure that the Inspectors General are well-qualified and have the necessary resources to oversee agency financial management.

The Offices of the Inspector General must ensure they are qualified to perform financial statement audits or specific segments of audits requiring specific expertise. These qualifications need to be determined through a review by an external party and may be incorporated into the peer review process.

For all future Inspector General appointments, have a board, which includes representatives of the President's Council on Integrity and Efficiency [PCIE], review the qualifications of the nominated Inspector General candidate to see if he or she is qualified

for an Inspector General position before they can be forwarded for Senate confirmation.

*4. Strengthen the President's Role as Chief Executive Officer of the Executive Branch by Establishing an Office of Management*

Management of the executive branch of the Federal Government should be a Presidential priority. Among the President's many roles is the responsibility to serve as chief executive officer or general manager of the Federal Government. Many broad objectives—including effectively managing Federal Government finances—intended to make the Federal Government work better depend on the commitment by the President and his staff in the Executive Office of the President. By approaching the Federal Government almost exclusively from a budgetary perspective, Presidents limit their ability to address management reforms in the Federal Government.

If the financial management function is to be strengthened the President needs the experts to be certain that the goal is achieved. That is also true of various other management functions. In the past, the Government Management, Information, and Technology Subcommittee has recommended legislation that would form an Office of Management separate and distinct from the Office of the Budget. This Office could help the President and his Cabinet concentrate on the critical management challenges facing the Federal Government.

Cabinet officers are not always nominated for their managerial skills. They need help. Congress has provided help by mandating the roles of Chief Financial Officer and Chief Information Officer. In a number of departments and agencies, these roles have been combined in one person. That is not what Congress sought. The financial and information management functions are so complex that they require the full-time attention of a senior management official.

## II. REPORT ON THE COMMITTEE'S OVERSIGHT REVIEW

### A. BACKGROUND

*1. The Need for Effective Federal Financial Management*

The need for effective financial management in the Federal Government has long been recognized. Insights on this subject made by President Thomas Jefferson on April 1, 1802—196 years ago—are still relevant today:

I think it an object of great importance . . . to simplify our system of finance, and bring it within the comprehension of every member of Congress . . . the whole system [has been] involved in an impenetrable fog. [T]here is a point . . . on which I should wish to keep my eye . . . a simplification of the form of accounts . . . so as to bring everything to a single centre[;] we might hope to see the finances of the Union as clear and intelligible as a merchant's books, so that every member of Congress, and every man of any mind in the Union, should be able to

comprehend them to investigate abuses, and consequently to control them.<sup>19</sup>

Federal financial management has been in a state of disarray for too long. Billions of dollars of taxpayers money are being lost each year to fraud, waste, abuse, and mismanagement in hundreds of programs in the Federal Government. Financial systems and practices are obsolete and ineffective and do not provide complete, consistent, reliable, and timely information to congressional decision-makers and agency management. The source of these losses could be identified and significantly reduced by improved management practices.

### **Federal Financial Management Legislation**

In response to this problem, Congress passed a series of laws designed to ensure that agency management problems would be fixed. The Chief Financial Officers Act, as expanded by the Government Management Reform Act of 1994 and amended by the Federal Financial Management Improvement Act of 1996 represents the most comprehensive financial management reform legislation of the last 40 years. Other significant legislation affecting Federal financial management includes: the Budget and Accounting Procedures Act of 1950, the Inspector General Act of 1978, as amended by the Inspector General Act Amendments of 1988 (the "IG Act"); Federal Managers' Financial Integrity Act of 1982 [FMFIA]; and the Debt Collection Act of 1982, as amended, and the Debt Collection Improvement Act of 1996. The key financial management provisions of each of these laws is described in detail in appendix B of this report.

### **Audited Financial Statements**

The Chief Financial Officer Act established 10 pilot agencies, requiring them to prepare financial statements and have those statements audited. This pilot program was intended to demonstrate the benefit of the preparation and audit of financial statements at Federal agencies. Based on the success of the pilot audits in uncovering financial management problems in these agencies, Congress expanded the CFO Act with the passage of the Government Management Reform Act of 1994.

The Government Management Reform Act [GMRA] is intended to provide a more effective, efficient, and responsive government. To that end, it specifically requires that each executive department and agency prepare and have audited a financial statement covering all accounts and associated activities of each office, bureau, and activity of the agency. The Director of OMB is responsible for setting the form and content of the financial statements against which the auditor must measure the agency's financial statements. The guidance provided by OMB incorporates the standards recommended by the Federal Accounting Standards Advisory Board [FASAB]. These audited statements are then to be sent to the Di-

<sup>19</sup>Thomas Jefferson in a letter to the Secretary of the Treasury, Albert Gallatin, Apr. 1, 1802, *The Writings of Thomas Jefferson*, Edited by Andrew A. Lipscomb, (Washington, DC, 1905.) Vol. 10, pp. 306-309.

rector of OMB not later than March 1 of each year following the fiscal year for which the statements are prepared.

In addition, GMRA required that a set of consolidated governmentwide financial statements be prepared for fiscal year 1997 and each year thereafter by the Secretary of the Treasury, in coordination with the Director of OMB. The financial statements are to be audited by the Comptroller General of the United States. These audited financial statements are due to Congress by March 31, of the following year.

### **Federal Accounting and Auditing Standards**

The Budget and Accounting Procedures Act of 1950 was enacted as a result of recommendations of the Hoover Commission.<sup>20</sup> The Commission suggested sweeping reforms that were intended to modernize and simplify governmental accounting and auditing methods and procedures. Congress agreed and directed the Comptroller General to “prescribe the principles, standards, and related requirements for accounting to be observed by each [E]xecutive agency.”<sup>21</sup> In response, the Comptroller General issued accounting principles to be followed by executive agencies in the *General Accounting Officer’s Policy and Procedures Manual for Guidance of Federal Agencies*, Title 2, Appendix I.

Title 2 standards were modeled, to a large degree, after private sector practices. They were the primary source of accounting guidance to be followed by Federal agencies from the 1950s until they were superseded by Statements of Federal Financial Accounting Standards. With the passage of the CFO Act in 1990 and its requirement to audit certain agencies’ financial statements, attention was focused on the accounting standards to which the agencies were to be held. As a result, the Office of Management and Budget objected to the Comptroller General setting such policy since he and the General Accounting Office which he heads are part of the legislative branch.

To resolve this constitutional dispute and improve adherence to a set of comprehensive accounting standards, the Comptroller General, along with the Director of the Office of Management and Budget and the Secretary of the Treasury, agreed to establish an independent board that would recommend accounting principles. This board, known as the Federal Accounting Standards Advisory Board [FASAB], was established in October 1990 as a deliberative body to consider and recommend accounting standards and principles for the Federal Government. Two of its members represent the executive branch; one represents the legislative branch. So there is no constitutional intrusion from the legislative branch as represented by the Comptroller General.

The recommendations of FASAB must be approved by the Comptroller General, the Director of the Office of Management and Budget, and the Secretary of the Treasury, who are referred to as

<sup>20</sup>The Commission on the Organization of the Executive Branch of Government, chaired by former President Herbert Hoover and commonly known as the “Hoover Commission”, was formed in 1947. The Commission’s first report, issued in 1949, contained recommendations regarding accounting and budget matters, many of which were enacted in the Budget and Accounting Procedures Act of 1950.

<sup>21</sup>The Budget and Accounting Procedures Act of 1950 (ch. 946, 64 Stat. 832, pt. II, sec. 112(a)).

the Board's principals. The approved standards, as adopted by the Board's principals, are then issued by the Comptroller General and the Director of OMB as Statements of Federal Accounting Standards. These Statements of Federal Accounting Standards are the body of standards that constitute generally accepted accounting principles for the Federal Government.

The FASAB is responsible for recommending accounting standards after considering the financial and budgetary information needs of Congress and executive agencies, as well as other users of Federal financial information.<sup>22</sup> While financial statements of private entities are principally intended to provide investors (shareholders, bankers, etc.) with information on the profitability of the entity, accounting and financial reporting in the Federal Government focuses on the government's duty to be publicly accountable. Federal financial reporting is intended to be used to (1) assess the government's accountability and its efficiency and effectiveness and (2) contribute to the understanding of the economic and social consequences of the allocation and various uses of Federal resources. Accounting standards for the Federal Government should result not only in understandable, relevant, and reliable financial information, but also foster effective accounting systems and internal controls that will help provide reasonable assurance that governmental activities are conducted economically, efficiently, and effectively, and in compliance with applicable laws and regulations.

FASAB completed the development of a comprehensive set of accounting standards for the Federal Government in 1996. These standards, augmented by two Statements of Federal Financial Accounting Concepts [SFFACs], consist of eight Statements of Federal Financial Accounting Standards [SFFASs]. Also, FASAB currently has five exposure drafts and one invitation for views on suggested standards outstanding, and has issued four interpretations of standards. The following table lists the documents issued by FASAB. It is expected that FASAB will continue to recommend statements on specialized topics and revise existing statements as necessary.

Accounting Concepts and Standards Documents Issued by the Federal Accounting Standards Advisory Board [FASAB]

| Title of Document                                        | Date of Issuance  | Effective Date  |
|----------------------------------------------------------|-------------------|-----------------|
| SFFAC 1: Objectives of Federal Financial Reporting.      | September 2, 1993 | Not Applicable  |
| SFFAC 2: Entity and Display                              | June 6, 1995      | Not Applicable  |
| SFFAS 1: Accounting for Selected Assets and Liabilities. | March 30, 1993    | October 1, 1993 |

<sup>22</sup>Federal Accounting Standards Advisory Board, Statement of Federal Financial Accounting Concepts No. 1, "Objectives of Federal Financial Reporting," ch. 1, pars. 23-30; Sept. 2, 1993.

Accounting Concepts and Standards Documents Issued by the Federal Accounting  
Standards Advisory Board [FASAB]—Continued

| Title of Document                                                             | Date of Issuance  | Effective Date               |
|-------------------------------------------------------------------------------|-------------------|------------------------------|
| SFFAS 2: Accounting for Direct Loans and Loan Guarantees.                     | August 23, 1993   | October 1, 1993              |
| SFFAS 3: Accounting for Inventory and Related Property.                       | October 27, 1993  | October 1, 1993              |
| SFFAS 4: Managerial Cost Accounting Concepts and Standards.                   | July 31, 1995     | October 1, 1997 <sup>1</sup> |
| SFFAS 5: Accounting for Liabilities of the Federal Government.                | December 20, 1995 | October 1, 1996              |
| SFFAS 6: Accounting for Property, Plant and Equipment.                        | November 30, 1995 | October 1, 1997              |
| SFFAS 7: Accounting for Revenue and Other Financial Sources.                  | May 10, 1996      | October 1, 1997              |
| SFFAS 8: Supplementary Stewardship Reporting.                                 | June 11, 1996     | October 1, 1997              |
| Exposure Draft: Management's Discussion and Analysis.                         | February 1997     | Not Applicable               |
| Exposure Draft: Governmentwide Supplementary Stewardship Reporting.           | June 1997         | Not Applicable               |
| Exposure Draft: Accounting for Internal Use Software.                         | June 1997         | Not Applicable               |
| Exposure Draft: Amendments to Accounting for Property, Plant, and Equipment.  | February 1998     | Not Applicable               |
| Exposure Draft: Accounting for Social Insurance.                              | February 20, 1998 | Not Applicable               |
| Invitation for Views: Accounting for the Cost of Capital by Federal Entities. | July 1996         | Not Applicable               |

Accounting Concepts and Standards Documents Issued by the Federal Accounting  
Standards Advisory Board [FASAB]—Continued

| Title of Document                                                                      | Date of Issuance  | Effective Date                                          |
|----------------------------------------------------------------------------------------|-------------------|---------------------------------------------------------|
| Interpretation 1: Reporting on Indian Trust Funds.                                     | March 12, 1997    | Effective upon implementation of SFFAS 7                |
| Interpretation 2: Accounting for Treasury Judgment Fund Transactions.                  | March 12, 1997    | Effective upon implementation of SFFAS 4 and 5          |
| Interpretation 3: Measurement Date for Pension and Retirement Health Care Liabilities. | August 29, 1997   | Reporting periods ending on or after September 30, 1997 |
| Interpretation 4: Accounting for Pension Payments in Excess of Pension Expense.        | December 19, 1997 | No effective date set <sup>2</sup>                      |

<sup>1</sup>Implementation of SFFAS 4 was deferred one year from October 1, 1996, to October 1, 1997. It is applicable to Federal financial statements prepared for fiscal year 1998 and thereafter.

<sup>2</sup>Interpretation 4 was issued by FASAB, however it will not be effective until it is published by OMB. As of the date of this report, OMB had not published Interpretation 4.

## *2. The Importance of Effective Internal Control*

Federal financial management legislation—the Federal Managers’ Financial Integrity and Federal Financial Management Improvement Acts in particular—placed great emphasis on the importance of effective internal control. Its importance cannot be overstated, especially in the large complex operating environment of the executive branch of the Federal Government. Internal control is the first line of defense against fraud, waste, abuse, and mismanagement and helps to ensure that an entity’s mission is achieved in the most effective and efficient manner. Although the subject of internal control usually surfaces—as it has in the hearings held by the Government Management, Information, and Technology Subcommittee—after improprieties or inefficiencies are found, good managers are always aware of and seek ways to help improve operations through effective internal control.

Internal control can be simply defined as the methods by which an organization governs its activities to accomplish its mission effectively and efficiently. More specifically, internal control is concerned with stewardship and accountability of resources consumed in the process of striving to accomplish an entity’s mission with effective results. GAO has defined internal control in its *Standards for Internal Controls in the Federal Government* as follows:

The plan of organization and methods and procedures adopted by management to ensure that resource use is

consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

Internal control should not be looked upon as separate, specialized systems within an agency. Rather, internal control should be recognized as an integral part of each system that management uses to regulate and guide its operations. Internal control is synonymous with management control in that the broad objectives of internal control cover all aspects of agency operations. Although ultimate responsibility for good internal control rests with management, all employees have a role in effective operation of internal control that has been set by management.

It is important to recognize that internal controls can be designed to provide reasonable, not absolute, assurance that an organization's activities are being accomplished in accordance with its objectives. In its Statement of Auditing Standards No. 55<sup>23</sup> the American Institute of Certified Public Accountants identified internal control limitations, such as the possibility of errors arising from such causes as misunderstanding of instructions, mistakes of judgment, and personal carelessness. Also, many control procedures depend on the segregation of duties. The effectiveness of these procedures can be circumvented by collusion. Similarly, management authorizations may be ineffective against errors or fraud perpetrated by management. In addition, the standard of reasonable assurance recognizes that the cost of internal control should not exceed the benefit derived. Reasonable assurance equates to a satisfactory level of confidence under given considerations of costs, benefits, and risks.

The full cost of fraud, waste, abuse, and mismanagement cannot always be known in advance and measured in terms of dollars. If improper activities are allowed to continue, public confidence is eroded in the government's ability to manage its programs effectively and honestly. Such erosion to any degree cannot be measured in dollar terms. The trust of the citizenry in its government is a priceless relationship.

Management at most Federal agencies are faced with tight budgets and thus limited human, information, and financial resources. In such an environment, especially given the diverse and complex nature of Federal Government operations, weak control environments can provide fertile ground for fraud, waste, abuse, and mismanagement.

### *3. Additional Factors Prompting This Investigation*

Effective financial management practices and timely financial information which is reliable enables senior management to make decisions which will result in effective and efficient operations. This belief is reflected in the Government performance and Results Act passed by Congress in 1993. It seeks to "... improve the confidence of the American people in the capacity of the Federal Gov-

<sup>23</sup> "Codification of Statements on Auditing Standards (Including Statements on Standards for Attestation Engagements), Numbers 1 to 82," American Institute of Certified Public Accountants, as of Jan. 1, 1997.

ernment, by systematically holding Federal agencies accountable for achieving program results . . .” and “. . . improve [C]ongressional decisionmaking by providing more objective information on achieving statutory objectives, and on the relative effectiveness and efficiency of Federal programs and spending.” Without reliable and timely financial information on the costs and benefits of Federal programs, effective results will not occur. Thus, it is imperative that Congress ensure that financial management practices provide decisionmakers with the financial information they need to achieve high levels of efficiency and effectiveness.

#### B. RESULTS OF THE FIRST GOVERNMENTWIDE FINANCIAL STATEMENT AUDIT AND RELATED AGENCY AUDITS

##### *1. Oversight Hearings Held by the Subcommittee*

On March 31, 1998, the General Accounting Office released its audit report on the financial status of the Federal Government required under the Chief Financial Officers Act of 1990 as expanded by the Government Management Reform Act of 1994 and amended by the Federal Financial Management Improvement Act of 1996. This report provided for the first time since the U.S. Government began in 1789, a concise accounting for the myriad problems faced by the executive branch. The Government Management, Information, and Technology Subcommittee held a hearing on April 1, 1998, to examine the results of this audit.

The subcommittee held hearings that focused on the status of financial management at the Department of Defense, the Health Care Financing Administration, the Internal Revenue Service, and the Social Security Administration. Collectively, they account for almost all the revenue and a majority of the cost (excluding interest on the national debt held by the public) for the Federal Government each year. In addition, Defense accounts for a significant portion of the assets held by the Federal Government. As a result, these agencies play a significant role in the Governmentwide statements and significantly affect the audit results. All these agencies have experienced problems in relation to financial management and have had varying degrees of success in resolving them. Each agency and department is required to issue separate audited financial statements. Hearings were held by the subcommittee to explore specific issues at each of these agencies.<sup>24</sup>

These hearings:

- explored the results of the first year of full implementation of the GMRA throughout the Federal Government, and in particular at the four agencies noted above;
- considered the need for congressional action to improve financial management in the executive branch; and
- where needed reviewed options for possible congressional actions to ensure the successful implementation of Federal Government financial management reforms.

<sup>24</sup>The results of each of these hearings is discussed in sec. II, C., *Proceedings of the Subcommittee*, on pp. 25–28 of this report.

### **Internal Revenue Service [IRS]**

The IRS collects more than 95 percent of the Federal Government's \$1.7 trillion in annual revenue. The IRS issues two sets of financial statements: one set for its custodial operations—the revenues collected and refunds paid and related taxes receivable and payable—and another for its appropriated funds. IRS' financial data are then incorporated into the agencywide statements prepared by the Department of the Treasury.

The IRS is responsible for enforcing tax laws in a fair and equitable manner, but has long been the focus of criticism for perceived abuse of its broad enforcement powers. In response to this criticism, Congress established a Commission on the Restructuring of the IRS. The Commission, led by Representative Rob Portman of Ohio and Senator Bob Kerrey of Nebraska, released a comprehensive report in June 1997 proposing several changes in the way the IRS is managed. The Commission's recommendations were the basis of H.R. 2676, the "Internal Revenue Service Restructuring and Reform Act of 1997," which was passed by the House and Senate on July 7, 1998, and is awaiting action by the President.

Also at congressional urging, the Clinton administration appointed a new Commissioner with extensive experience in managing large organizations. Charles O. Rossotti, founder of a firm in the management systems and technology industry, was appointed Commissioner of the IRS in September 1997. Since his appointment, Commissioner Rossotti has proposed a sweeping reorganization of the IRS that exceeded changes mandated in the legislation passed by Congress.

In fiscal year 1997, for the first time since it was required to issue annual audited statements in fiscal year 1992, the IRS received a clean opinion on its financial statements covering the collection and refunds of taxes. (Separate statements are prepared covering IRS' appropriated operations.)<sup>25</sup> However, the audit report disclosed significant weaknesses in internal controls and areas of noncompliance with laws and regulations.

The subcommittee's oversight hearing on April 15, 1998, highlighted the need for better computer systems to improve the IRS' debt management. The IRS estimates it can collect only 13 percent of the \$214 billion in debt assessed by the IRS which it claims it is owed by delinquent taxpayers. The hearing also illustrated the need for better controls over cash coming into IRS service centers. Between 1995 and 1997, there were 80 instances of actual or alleged embezzlement by IRS employees, costing taxpayers \$5.3 million.<sup>26</sup>

<sup>25</sup>For fiscal year 1997, IRS issued two sets of financial statements. One set of statements accounts for the tax revenues collected or due and refunds paid or owed. These net tax revenues and related assets and liabilities cannot be used by the IRS in its operations. IRS has a fiduciary duty to collect and account for these taxes which are used to fund Federal Government operations. The other set of financial statements accounts for the appropriations received by IRS to fund its operations.

<sup>26</sup>Testimony of Gene L. Dodaro, Assistant Comptroller General, General Accounting Office, on financial management at the Internal Revenue Service before the House Committee on Government Reform and Oversight, Subcommittee on Government Management, Information, and Technology, Apr. 15, 1998.

### Department of Defense [DOD]

The General Accounting Office, Defense Inspector General, and the military department audit agencies have long reported problems in DOD's financial management systems and practices. Each year numerous reports are issued with virtually the same problems as the prior year. DOD's reported financial management problems include inadequate control over assets such as real property, capital leases, construction in process, and inventories; the understatement of costs associated with environmental clean-up; military retiree benefits and other liabilities not covered by current budgetary resources; and instances of noncompliance with laws and regulations. These problems resulted in the Inspector General's inability to render an opinion on DOD's financial statements for fiscal year 1997. The GAO disclaimed an opinion on the Consolidated Governmentwide Financial Statements of the Federal Government, in great part due to Defense's inability to provide complete and verifiable information of its finances.

The issues that need to be resolved cross operational lines in DOD and at the military services. As a result, action is needed from the top management levels at DOD to ensure that the long-standing problems are resolved.

On April 16, the subcommittee examined the need for remedial actions at the DOD to correct its longstanding and severe problems in achieving even the most basic level of accountability. These problems include DOD's:

- inability to find all its equipment and inventories;
  - Examples of missing equipment and inventories items at the Navy included:
    - 2 utility boats valued at \$174,000 each
    - 2 large harbors tugs valued at \$875,000 each
    - 7 covered lighters—barges used to carry cargo—with values ranging from \$40,000 to \$85,000 each
    - 1 floating crane valued at \$468,000
    - 15 uninstalled engines, including 2 F-18 engines valued at \$4 million each
  - Missing items at the Army included:
    - An Avenger missile launcher worth approximately \$1 million. More than 7 months after the end of the fiscal year, the missile launcher was located by DOD.
- inability to estimate and report costs for environmental and disposal liabilities—which GAO believes is understated by tens of billions of dollars;
- inability to determine the cost of postretirement health benefits for its military employees;
- inability to provide and accurately report on the net cost of its operations;
- inability to account for billions of dollars of basic transactions; and
- inability to ensure that all disbursements are properly recorded and reconciled.<sup>27</sup>

<sup>27</sup> On Nov. 14, 1995, the Government Management, Information, and Technology Subcommittee held a hearing on DOD's financial management problems, including its inability to account for billions of dollars it had spent. As of September 1995, the amount of these so called "problem disbursements" was reported to be \$20.5 billion. This amount was down from the \$25 billion

In brief, because of the inabilities noted above, there was no clean opinion for Defense.

### **Social Security Administration [SSA]**

For fiscal year 1997, Social Security, which is now an independent agency not part of a Cabinet department, earned an unqualified “clean” opinion on its financial statements for the 4th consecutive year. The auditors reported no material weaknesses in SSA’s internal controls. The audit report noted, however, two instances of noncompliance with laws and regulations. SSA published its financial statements and the related audit report in its “accountability report” on November 21, 1997—more than 3 months early. SSA was one of the few agencies to issue its report prior to the March 1, 1998, due date.

Social Security was one of the first agencies to have its financial statements audited as a pilot under the CFO Act. The first audit required of SSA under the CFO Act was for fiscal year 1990.

On April 17, the Government Management, Information, and Technology Subcommittee looked at lessons learned at SSA in its efforts to achieve effective financial management systems and practices. It received a clean opinion on its financial statements for the 4th year in a row and had an effective system of internal controls—these are commendable achievements. However, the audit continued to disclose areas that need improvement:

- SSA’s known benefit overpayments amounted to \$1 billion in fiscal year 1997.
- SSA continues to have a large backlog of continuing disability reviews, by which SSA ensures that people receiving disability benefits are entitled to them.
- SSA needs to better protect sensitive information stored in its computers.

### **Health Care Financing Administration [HCFA]**

HCFA accounts for more than 18 percent of all Federal budget outlays and pays for one-third of the health care costs throughout the United States. It has been unable to provide timely or reliable financial information. Also, the growth of HCFA’s Medicare and Medicaid payments have far exceeded the growth in the Consumer Price Index for medical goods and services. GAO has cited HCFA’s Medicare program as a high risk area for fraud, waste, and abuse.<sup>28</sup>

HCFA’s fiscal year 1996 financial statements received a disclaimer of opinion. The Inspector General of HHS was unable to render an opinion because of significant limitations on the scope of her work. Specifically, she cited insufficient documentation maintained by the contractors who process the payment of Medicare claims for HCFA among these problems. There were also material weaknesses in internal controls over HCFA operations and substantial non-compliance with laws and regulations.

DOD had reported in February 1995 when the problem was brought to congressional attention in GAO’s 1995 High-Risk report. (“High Risk Series: An Overview,” GAO/HR-95-1, February 1995.) In his Nov. 14, 1995, testimony, DOD Deputy Chief Financial Officer Alvin Tucker stated that problem disbursements had been reduced from \$51 billion in June 1993. In DOD’s latest report as of January 1998, it reported \$22.6 in problem disbursements.

<sup>28</sup>“High Risk Series: Medicare,” GAO/HR-97-10, February 1997.

HCFA released its audited financial statements for fiscal year 1997 at the April 24, 1998, hearing. The results of the audit showed that some improvements had been made by HCFA as the Inspector General issued a qualified opinion on the financial statements. The qualification resulted from continuing problems in determining: (1) the accuracy of reported collections of amounts owed to HCFA during the year and remaining balances of accounts receivable as of the fiscal year end and (2) that amounts paid by HCFA to health care providers through the final cost report settlement process were reasonable and appropriate.

On April 24, the subcommittee held a joint hearing on the financial management status of HCFA with the Subcommittee on Health and Environment and the Subcommittee on Oversight and Investigations of the House Committee on Commerce. HCFA accounts for over 85 percent of the Department of Health and Human Service's expenses. It issues its own set of audited financial statements. These data are then incorporated into the agencywide financial statements of the Department of Health and Human Service.

Based on last year's audit results, the joint hearing focused on actions HCFA is taking to resolve its financial management problems, including excessive Medicare payments. These fiscal year 1997 overpayments are estimated at \$20.3 billion—or 11 percent of the Medicare fee-for-service payments made that year. This estimate does not include fraudulent payments. Any estimate which included fraudulent payments would clearly exceed the projection of overpayments noted above.

The subcommittees found that, while progress was made, much more is needed to ensure that the Medicare and Medicaid programs—critical to the security of tens of millions of elderly and impoverished Americans—are fiscally sound.

Specific issues disclosed in the auditor's report on the financial statements included the following:

- The Administrator of HCFA is using the results of the audit concerning the \$20.3 billion overpayments to target actions to stop such overpayments.
- Medicare contractors did not maintain support needed to determine the accuracy of reported collections of amounts owed to HCFA during the year and remaining balances of accounts receivable as of the fiscal year end. These accounts receivable represent amounts medical providers owe HCFA due to overpayments reported by Medicare contractors. Some of the contractors were unable to provide subsidiary ledgers or other documentation to support amounts reported to HCFA. In some cases the contractors could not reconcile their records of accounts receivable to amounts reported to HCFA. As a result, auditors were unable to determine if the records maintained by the contractors included all the amounts owed to HCFA.
- Medicare Part A providers are paid interim amounts throughout the year and then file a cost report with Medicare contractors to reconcile actual costs to interim payments received. The contractor is responsible for ensuring the amounts paid by HCFA were reasonable and appropriate. However, due to the limited scope of the contractors' audits of provider cost reports, there is no assurance that amounts paid by HCFA to

providers through the final cost report settlement process were reasonable or appropriate. In fiscal year 1997, these payments amounted to \$2.4 billion. Based on contractor reports, HCFA estimated that it has a liability of approximately \$5 billion for pending cost report settlements.

## *2. Federal Department and Agency Financial Management Grades*

On April 1, 1998, the Government Management, Information, and Technology Subcommittee released its first report card measuring the effectiveness of financial management at the 24 Federal departments and agencies which prepared audited financial statements. The grades were based on the results of the audits prepared by the agency's Inspectors General, independent public accountants, and the General Accounting Office. The report card is a gauge for Congress to see where attention is needed to push agencies to get their financial affairs in order.

The Department of Energy and the National Aeronautics and Space Administration demonstrated that they *could* effectively manage their finances. Each of these agencies received an "A." However, these agencies were the exception rather than the rule.

Another six agencies earned commendable "Bs." These six were the National Science Foundation, General Services Administration, Department of the Interior, Department of Labor, Nuclear Regulatory Commission, and the Social Security Administration.

Of the 24 agencies, 11—46 percent—were not able to meet the March 1 reporting date established by the Government Management Reform Act of 1994, *5 months after the close of the Federal Government's fiscal year*. As of the publication of this report, three agencies—the Department of Agriculture, the Federal Emergency Management Agency, and the Department of State—have yet to submit audited financial statements.

Many other agencies could not pass muster. The failing ones included the Agency for International Development, the Department of Defense, the Department of Justice, and the Office of Personnel Management. Two more agencies that reported late, the Department of Commerce and the Department of Transportation, also wound up with "Fs." Another seven agencies received "Ds."

These audits were required by the 1994 act. This act is intended to provide a more effective, efficient, and responsive Government. To that end, the act specifically requires that consolidated governmentwide financial statements be prepared and audited and that each executive agency prepare and have audited a financial statement covering all accounts and associated activities of each office, bureau, and activity of the agency. A copy of the grades follows:

## Federal Financial Management Status Report—Federal Departments and Agencies

| Department/Agency                              | Reliable Financial Information (yes/qualified/no) | Effective Internal Control (yes/no) | Compliance with Laws and Regulations (yes/no) | Grade FY 96 | Grade FY 97 |
|------------------------------------------------|---------------------------------------------------|-------------------------------------|-----------------------------------------------|-------------|-------------|
| Department of Energy                           | YES                                               | YES                                 | YES                                           | A           | A           |
| National Aeronautics and Space Administration. | YES                                               | YES                                 | YES                                           | A           | A           |
| National Science Foundation.                   | Qualified                                         | YES                                 | YES                                           | D           | B+          |
| General Services Administration.               | YES                                               | YES                                 | NO                                            | D+          | B-          |
| Department of the Interior                     | YES                                               | YES                                 | NO                                            | D+          | B-          |
| Department of Labor                            | YES                                               | YES                                 | NO                                            | D           | B-          |
| Nuclear Regulatory Commission.                 | YES                                               | YES                                 | NO                                            | A           | B-          |
| Social Security Administration.                | YES                                               | YES                                 | NO                                            | A           | B-          |
| Department of Education                        | YES                                               | NO                                  | NO                                            | D+          | D+          |
| Environmental Protection Agency.               | YES                                               | NO                                  | NO                                            | C           | D+          |
| Small Business Administration.                 | YES                                               | NO                                  | NO                                            | B-          | D+          |
| Department of Health and Human Services.       | Qualified                                         | NO                                  | NO                                            | F           | D-          |
| Department of Housing and Urban Development.   | Qualified                                         | NO                                  | NO                                            | D-          | D-          |
| Department of the Treasury                     | Qualified                                         | NO                                  | NO                                            | F           | D-          |

Federal Financial Management Status Report—Federal Departments and Agencies—  
Continued

| Department/Agency                     | Reliable Financial Information (yes/qualified/no) | Effective Internal Control (yes/no) | Compliance with Laws and Regulations (yes/no) | Grade FY 96 | Grade FY 97 |
|---------------------------------------|---------------------------------------------------|-------------------------------------|-----------------------------------------------|-------------|-------------|
| Department of Veterans Affairs.       | Qualified                                         | NO                                  | NO                                            | F           | D-          |
| Agency for International Development. | NO                                                | NO                                  | NO                                            | F           | F           |
| Department of Commerce                | NO                                                | NO                                  | NO                                            | F           | F           |
| Department of Defense                 | NO                                                | NO                                  | NO                                            | F           | F           |
| Department of Justice                 | NO                                                | NO                                  | NO                                            | F           | F           |
| Office of Personnel Management.       | NO                                                | NO                                  | NO                                            | F           | F           |
| Department of Transportation.         | NO                                                | NO                                  | NO                                            | F           | F           |
| Department of Agriculture             | No report                                         | No report                           | No report                                     | F           | INC         |
| Federal Emergency Management Agency.  | No report                                         | No report                           | No report                                     | F           | INC         |
| Department of State                   | No report                                         | No report                           | No report                                     | D-          | INC         |

C. PROCEEDINGS OF THE SUBCOMMITTEE ON GOVERNMENT  
MANAGEMENT, INFORMATION, AND TECHNOLOGY

*1. April 1, 1998, Oversight Hearing on the Results of the Audit of the Consolidated Financial Statements of the Federal Government*

At this hearing the subcommittee received testimony from representatives of the General Accounting Office, the Office of Management and Budget, and the Department of the Treasury. Witnesses focused on the results of the first-ever audit of the consolidated financial statements of the Federal Government. The audit represents the culmination of implementation of the Government Management Reform Act's financial management provisions.

Assistant Comptroller General Gene Dodaro described the myriad financial management problems which prevented the General Accounting Office from expressing an opinion on the statements. Many of these problems were found at the majority of the 24 departments and agencies of the Federal Government required to report under the CFO Act.

Office of Management and Budget Acting Deputy Director for Management G. Edward DeSeve joined with Gerald Murphy, Senior Advisor to the Undersecretary for Domestic Finance of the Department of the Treasury, in presenting the progress the executive branch has made in improving financial management. They explained some of the actions needed to resolve them. Mr. DeSeve stated that the administration's goal for achieving an unqualified opinion on the consolidated financial statements of the Federal Government was for fiscal year 1999 which will end on September 30, 1999.

*2. April 15, 1998, Oversight Hearing on Management of the Internal Revenue Service [IRS]*

The subcommittee received testimony from the newly confirmed Commissioner and the former Chief Financial Officer of the Internal Revenue Service as well as representatives of the GAO. The final panel included representatives from the American Bar Association, the American Institute of Certified Public Accountants, and the National Academy of Public Administration.

Commissioner of Internal Revenue Charles O. Rossotti acknowledged the serious problems that must be resolved for the IRS not only to better manage its operations but also to remain viable. The Commissioner identified the year 2000 computer date conversion problem as his highest priority. If not corrected, this computer problem could prevent the IRS from accomplishing its primary mission of collecting from and refunding taxes to the taxpayers.

Anthony Musick, the former Chief Financial Officer of the IRS, also testified about the difficulty in generating reliable financial information on the agency's tax collection (custodial) activities from current internal revenue systems. He noted that these systems are outdated and were not designed to provide financial management information. Although the IRS has been able to obtain an unqualified opinion on its custodial financial statements, its systems of internal control remain ineffective. This situation prevents the IRS from effectively managing its financial activity.

Assistant Comptroller General Dodaro discussed the systems problems found by the audit and the challenges facing IRS in correcting them. He elaborated on the adverse effect of these systems problems on IRS's efforts to collect delinquent taxes due. The GAO staff found instances where these systems problems resulted in an undue burden on many taxpayers.

*3. April 16, 1998, Oversight Hearing on Financial Management at the Department of Defense [DOD]*

The subcommittee received testimony from the Defense Inspector General, representatives of the GAO, and representatives of DOD. Inspector General Eleanor Hill testified that her office could not issue an opinion on the DOD's agencywide financial statements.

Assistant Comptroller General Dodaro described the impact of the DOD's financial management failures on the audit of the consolidated governmentwide financial statements.

Nelson Toye, Deputy Chief Financial Officer of DOD, claimed that the Department planned actions to resolve and eliminate the issues that had precluded the Inspector General from rendering an opinion on the financial statements.

*4. April 17, 1998, Oversight Hearing on Financial Management at the Social Security Administration [SSA]*

The subcommittee received testimony from Social Security Inspector General David Williams and Acting Deputy Principal Commissioner of the Social Security Administration John R. Dyer. SSA has received an unqualified opinion on its financial statements and has no reported material weaknesses in internal controls. However, it does have reported instances of non-compliance with laws and regulations affecting financial management. Inspector General Williams and Acting Principal Deputy Commissioner Dyer shared their experiences in the preparation and audit of the financial statements including the benefits derived from that exercise.

*5. April 21, 1998, Oversight Hearing on the Inspector General Act of 1978*

The subcommittee received testimony from both current and former Inspectors General as well as from the General Accounting Office, former congressional staff and outside interest groups. During the hearing, witnesses discussed new responsibilities of Inspectors General under the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994.

These new responsibilities include the audit of the financial statements of the department or agency for which they are responsible and any subcomponents of the department or agency that is required to have separate statements. These audits are performed under generally accepted government auditing standards. They require that the auditor perform procedures and report on the agency's internal controls and compliance with laws and regulations as well as report on the condition of the financial statements and their related notes.

*6. April 24, 1998, Joint Oversight Hearing on Financial Management at the Health Care Financing Administration [HCFA]*

The subcommittees received testimony from the Inspector General of the Department of Health and Human Services and the Administrator of the Health Care Financing Administration. This was a joint hearing with the Subcommittee on Health and Environment and the Subcommittee on Oversight and Investigations of the Committee on Commerce. The subcommittee determined that, while progress was made, much more is needed to ensure the fiscal soundness of the Medicare and Medicaid programs which are critical to the security of tens of millions of elderly and impoverished Americans. The estimate of overpayments made for fiscal year 1997 amounted to \$20.3 billion. The preparation and audit of the financial statements has focused attention on this serious issue. HCFA

Administrator Nancy-Ann Min DeParle stated she is using the results of the audit to target actions to reduce overpayments.

*7. June 18, 1998, Oversight Hearing on Options to Strengthen Federal Financial Management*

At this hearing the subcommittee received testimony from Representative Richard Armey of Texas, the majority leader of the House of Representatives; Representative Mark Neumann of Wisconsin; Gene Dodaro, Assistant Comptroller General, GAO; and Thomas Schatz, president, Citizens Against Government Waste.

Mr. Armey expressed support for initiatives explored by the subcommittee to strengthen measures to enforce existing Federal financial management laws. Mr. Neumann stated his belief that without consequences for failure to provide effective financial management, the agencies would not place the emphasis on correcting these problems. He proposed legislation that would provide consequences for those agencies that fail their audit: budgetary restrictions and dismissal of individuals responsible for failure to bring financial statements into compliance.

Mr. Dodaro presented several options for the subcommittee to consider including increased congressional oversight. He noted the effectiveness of congressional oversight as evidenced by recent actions taken by the administration to improve Federal financial management.

Mr. Schatz stressed that one of the impediments to effective implementation of Federal financial management legislation is a lack of strong leadership. He discussed the problem of Chief Financial Officers in many agencies also having the designation of Chief Information Officer. This situation not only weakens the full-time leadership that should be provided by financial management but it also weakens the full-time leadership that is needed for information management as well.

### III. CONCLUSIONS

Financial management has long been recognized as a problem area in the Federal Government. Congress has developed a strong legislative framework, that if properly implemented, would significantly improve financial management in the Federal Government. Improved financial management leads to more efficient and effective operations through better and more informed decisionmaking. Too many executive departments and agencies have been too slow to implement the financial management legislation. Although limited progress has been made, much more progress is needed.

The Government Management, Information, and Technology Subcommittee's hearings and the audit reports have continued to raise serious issues affecting the soundness of fundamental management information used by decisionmakers. To make good decisions, Congress and the President and his Cabinet need *reliable* data on a *timely* basis. In the balance are both the quality of our Government's services and the fiscal health of this Nation. Congressional and executive attention to financial management therefore is crucial. Immediate action is needed to ensure that the Federal Government gets its financial house in order.

Successful implementation of the Chief Financial Officers Act of 1990, as expanded by the Government Management Reform Act of 1994 and amended by the Federal Financial Management Improvement Act of 1996, is the foundation for the success of the Government Performance and Results Act of 1993. Legislation is needed to penalize agencies that are not in compliance with existing Federal financial management legislation. Further, the President needs appropriate staff to focus on management problems, whether they be in general management, financial management, and/or information management. The agencies need to be strengthened to ensure that adequate attention is focused on financial management problems. Without these actions, many executive departments and agencies will continue to avoid their fundamental responsibility to be accountable to the American taxpayer.

#### ADDITIONAL VIEWS OF HON. STEPHEN HORN

On July 27, 1998, 4 days after the committee voted to adopt the report, the Department of Agriculture [USDA] issued its audited agencywide financial statements for fiscal year 1997. The USDA financial report was issued approximately 5 months after the March 1, 1998, submission date as required by the Government Management Reform Act of 1994. Based on the audit report accompanying its financial statements, the USDA earned an “F” for financial management during fiscal year 1997.

USDA’s Inspector General issued a disclaimer of opinion on the agencywide financial statements. A disclaimer of opinion signifies that the Inspector General could not determine if amounts reported in the financial statements were reliable in all material respects. Further, the Inspector General’s audit report identified several material weaknesses in internal controls and specific instances of non-compliance with certain laws and regulations related to financial management.

The agencies’ financial management grades reflect the inclusion of the recent audit of USDA’s financial statements. The information provided in this additional view is intended to update information included in section II.B.1. of the committee report entitled “Federal Agency Financial Management Grades.”

Of the 24 agencies, 11—46 percent—were not able to meet the March 1 reporting date established by the Government Management Reform Act of 1994. As of the publication of this report, two agencies—the Federal Emergency Management Agency and the Department of State—have yet to submit audited financial statements.

Fourteen agencies did not have effective financial management. Among them were seven agencies receiving “Fs”: Agriculture; the Agency for International Development; Commerce; Defense; Justice; Personnel Management; and Transportation. Another seven agencies received “Ds”: Education; Environmental Protection; Small Business; Health and Human Services; Housing and Urban Development; Treasury; and Veterans Affairs.

A copy of the revised grades based upon the issuance of the Department of Agriculture’s audited financial statements follows:

## Federal Financial Management Status Report—Federal Departments and Agencies

| Department/Agency                              | Reliable Financial Information (yes/qualified/no) | Effective Internal Control (yes/no) | Compliance with Laws and Regulations (yes/no) | Grade FY 96 | Grade FY 97 |
|------------------------------------------------|---------------------------------------------------|-------------------------------------|-----------------------------------------------|-------------|-------------|
| Department of Energy                           | YES                                               | YES                                 | YES                                           | A           | A           |
| National Aeronautics and Space Administration. | YES                                               | YES                                 | YES                                           | A           | A           |
| National Science Foundation.                   | Qualified                                         | YES                                 | YES                                           | D           | B+          |
| General Services Administration.               | YES                                               | YES                                 | NO                                            | D+          | B-          |
| Department of the Interior                     | YES                                               | YES                                 | NO                                            | D+          | B-          |
| Department of Labor                            | YES                                               | YES                                 | NO                                            | D           | B-          |
| Nuclear Regulatory Commission.                 | YES                                               | YES                                 | NO                                            | A           | B-          |
| Social Security Administration.                | YES                                               | YES                                 | NO                                            | A           | B-          |
| Department of Education                        | YES                                               | NO                                  | NO                                            | D+          | D+          |
| Environmental Protection Agency.               | YES                                               | NO                                  | NO                                            | C           | D+          |
| Small Business Administration.                 | YES                                               | NO                                  | NO                                            | B-          | D+          |
| Department of Health and Human Services.       | Qualified                                         | NO                                  | NO                                            | F           | D-          |
| Department of Housing and Urban Development.   | Qualified                                         | NO                                  | NO                                            | D-          | D-          |
| Department of the Treasury                     | Qualified                                         | NO                                  | NO                                            | F           | D-          |

Federal Financial Management Status Report—Federal Departments and Agencies—  
Continued

| Department/Agency                     | Reliable<br>Financial<br>Information (yes/<br>qualified/<br>no) | Effective<br>Internal<br>Control<br>(yes/no) | Compliance with<br>Laws and<br>Regulations<br>(yes/no) | Grade<br>FY 96 | Grade<br>FY 97 |
|---------------------------------------|-----------------------------------------------------------------|----------------------------------------------|--------------------------------------------------------|----------------|----------------|
| Department of Veterans Affairs.       | Qualified                                                       | NO                                           | NO                                                     | F              | D-             |
| Department of Agriculture             | No                                                              | No                                           | No                                                     | F              | F              |
| Agency for International Development. | NO                                                              | NO                                           | NO                                                     | F              | F              |
| Department of Commerce                | NO                                                              | NO                                           | NO                                                     | F              | F              |
| Department of Defense                 | NO                                                              | NO                                           | NO                                                     | F              | F              |
| Department of Justice                 | NO                                                              | NO                                           | NO                                                     | F              | F              |
| Office of Personnel Management.       | NO                                                              | NO                                           | NO                                                     | F              | F              |
| Department of Transportation.         | NO                                                              | NO                                           | NO                                                     | F              | F              |
| Federal Emergency Management Agency.  | No report                                                       | No report                                    | No report                                              | F              | INC            |
| Department of State                   | No report                                                       | No report                                    | No report                                              | D-             | INC            |

HON. STEPHEN HORN.

ADDITIONAL VIEWS OF HON. HENRY A. WAXMAN, HON. DENNIS J. KUCINICH, HON. TOM LANTOS, HON. ROBERT E. WISE, JR., HON. MAJOR R. OWENS, HON. EDOLPHUS TOWNS, HON. PAUL E. KANJORSKI, HON. BERNARD SANDERS, HON. CAROLYN B. MALONEY, HON. THOMAS M. BARRETT, HON. ELEANOR HOLMES NORTON, HON. CHAKA FATTAH, HON. ELIJAH E. CUMMINGS, HON. ROD R. BLAGOJEVICH, HON. DANNY K. DAVIS, HON. THOMAS H. ALLEN, AND HON. HAROLD E. FORD, JR.

The Subcommittee on Government Management, Information, and Technology held a series of oversight and legislative hearings related to Federal financial management. The subcommittee reviewed the results of the first-ever government-wide financial audit. It also considered agency-wide financial audits at agencies that collectively account for almost all the revenue and a majority of the expenses of the Federal Government. Clearly, these audits demonstrate that the Federal Government has a long way to go before it can produce reliable and timely financial information on a continuing basis. These audits provide useful information on how the government is managing its financial responsibilities.

While we agree with most of the report issued today, we submit additional views to express a few concerns with the report. First, we disagree with the recommendation to establish a separate agency called the Office of Management. It does not make sense to split the Office of Management and Budget [OMB] and centralize all management functions in a separate Federal agency. Divorcing management priorities and policies from the budget process makes little practical sense. Management improvements are most effectively achieved when combined with budgetary review. It is difficult to undertake new management approaches without the ability to coordinate budget support. Conversely, without the “hammer” of budget restrictions, agencies may be unlikely to respond to management initiatives.

Without the ability to use budgetary resources and constraints to force management priorities, a separate management agency will have little clout. In fact, the only former director of OMB that testified before the subcommittee indicated that he had not “totally bought into the fact that it is a good idea to create an Office of Federal Management away from OMB,” and when he called agency heads to get management improvements, his calls were returned

more quickly because he was at the Office of Management and Budget.<sup>1</sup> OMB strongly opposes the proposal to centralize management functions in a separate agency. Indeed, with the OMB 2000 initiative, OMB has taken the opposite approach and decentralized budget and management decisions at the budget examiner level.

In addition, we disagree with efforts to penalize agencies with a “one size fits all” approach. We would oppose the automatic dismissal of financial managers or executives from Federal service if their agencies fail to make adequate progress in financial management. New cost accounting and revenue standards will be implemented next year. These new standards could make it much more difficult for agencies to obtain clean audits for 1998. In particular, at large Federal agencies such as the Department of Defense [DOD] and the Internal Revenue Service [IRS], unforeseen constraints may prevent a manager from succeeding despite good efforts.

We suggest that financial managers who do not achieve expected results simply be removed from responsibility for financial improvement. This is less draconian and would obtain the same result. It would also be less likely to deter qualified people from taking on the toughest assignments, such as improving DOD’s financial systems.

The majority report also states that Congress must restrict agencies’ ability to compete with the private sector for contracts pending resolution of financial management problems. We are concerned that preventing agencies from competing with private contractors may have severe negative consequences—costing the American public more and providing worse service.

Further, the report underemphasizes DOD’s financial problems, which represent the largest single obstacle to ever obtaining an unqualified opinion on the consolidated statements of the U.S. Government.<sup>2</sup> DOD has 122 different finance and accounting systems.<sup>3</sup> The agency lacks an overarching systems architecture, as required by the Clinger-Cohen Act of 1996.<sup>4</sup> This makes consistent financial reporting difficult. For example, Gene Dodaro, Assistant Comptroller General of the United States, told the subcommittee:

[W]e found that hundreds of billions of dollars of the reported \$1.2 trillion on the [government-wide consolidated] financial statements was not adequately supported by accounting or logistical records. Now the biggest area here is at the Department of Defense. Defense accounts for roughly 80 percent of all these assets and one of the reasons that Defense has not been able to obtain a clean opinion on its financial statements . . . is because of problems . . . properly accounting for its assets.<sup>5</sup>

<sup>1</sup>Testimony of Joseph H. Wright before the House Government Management, Information, and Technology Subcommittee, 92–95 (May 12, 1998).

<sup>2</sup>Testimony of Gene Dodaro before the House Government Management, Information, and Technology Subcommittee, 16 (April 16, 1998).

<sup>3</sup>Testimony of the Honorable Eleanor Hill, Inspector General of the Department of Defense, before the House Government Management, Information, and Technology Subcommittee, 13 (April 16, 1998).

<sup>4</sup>Testimony of Gene Dodaro before the House Government Management, Information, and Technology Subcommittee, 56–57 (April 1, 1998).

<sup>5</sup>Testimony of Gene Dodaro before the House Government Management, Information, and Technology Subcommittee, 17 (April 1, 1998).

DOD also was unable to determine its environmental liability, and as a result, the government-wide estimate of \$212 billion is clearly understated. DOD cannot determine the cost of post-retirement health benefits for its military employees, report accurately the net cost of its operations, account for billions in basic transaction costs, or ensure that all disbursements are properly recorded and reconciled.<sup>6</sup>

Finally, we must point out that, while overall government-wide progress has been too slow in past administrations, the Clinton administration has demonstrated heightened concern and experienced significant improvement. Only 30 percent of the major Federal agencies were audited in 1990; last year 96 percent of these agencies conducted financial audits. Only two Federal agencies produced reliable financial information on their balance sheets in 1992. By 1998, 10 Federal agencies were able to produce reliable information on their balance sheets. In addition, the General Accounting Office issued clean opinions for the IRS, the Bureau of Public Debt, and the Social Security Administration. Federal chief financial officers predict that 15 of 24 agencies will achieve unqualified opinions next year. Clearly, agencies are headed in the right direction.

Moreover, the administration is dedicated to obtaining reliable government-wide financial statements by fiscal year 1999. President Clinton issued a memorandum on May 26, 1998, to agency heads requiring that certain agencies prepare action plans to ensure that they will receive an unqualified audit on the fiscal year 1999 audit. Agencies that do not have “clean audits” and good internal controls must submit their action plans to OMB on July 31, 1998, and provide OMB with quarterly reports on their progress. OMB will monitor agency progress toward the goal of a clean government-wide audit as well as clean opinions at each major Federal agency.

Improving Federal financial management will require vigilant and sustained congressional oversight. There should be consequences for agencies that fail to improve. This must be a high priority of future administrations. However, it does no good to fire people indiscriminately, or to withhold funding if such action is counterproductive. Immediate action that penalizes agencies may worsen matters, by depriving them of needed funds when the century date change computer conversion, system modernization, and financial management consolidation and improvement are all occurring.

Finally, we did not participate in determining agency “grades” for financial management. While we recognize the value of a simple system to identify and evaluate the status and progress of Federal agencies, we are concerned that the grading system oversimplifies the analysis and does not characterize the situation accurately. The categories “internal controls” and “noncompliance with laws and regulations” encompass a wide range of issues and are graded on a simple pass/fail basis. Some agencies may “fail” for minor problems, while others such as DOD may “fail” for many, significant,

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<sup>6</sup>There are, of course, a number of other agencies that have significant financial management problems including the Office of Personnel Management, the Health Care Financing Administration, and the Departments of Agriculture, Treasury, Justice and Commerce.

and systematic problems. These two categories are weighted equally with audit opinions, and therefore skew grades downward for almost all the agencies.

HON. HENRY A. WAXMAN.  
HON. DENNIS J. KUCINICH.  
HON. TOM LANTOS.  
HON. ROBERT E. WISE, JR.  
HON. MAJOR R. OWENS.  
HON. EDOLPHUS TOWNS.  
HON. PAUL E. KANJORSKI.  
HON. BERNARD SANDERS.  
HON. CAROLYN B. MALONEY.  
HON. THOMAS M. BARRETT.  
HON. ELEANOR HOLMES NORTON.  
HON. CHAKA FATTAH.  
HON. ELIJAH E. CUMMINGS.  
HON. ROD R. BLAGOJEVICH.  
HON. DANNY K. DAVIS.  
HON. THOMAS H. ALLEN.  
HON. HAROLD E. FORD, JR.

## APPENDIX A—BASIS FOR AGENCY FINANCIAL MANAGEMENT GRADES

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The grades for each of the 24 departments and agencies were based on the results of the financial statement audits. These audits were performed by the agency's Inspector General, an independent public accounting firm, or the General Accounting Office. All the auditors were required to follow generally accepted government auditing standards (GAGAS). These standards incorporate the American Institute of Certified Public Accountant's *Statements on Auditing Standards*, the same standards required to be followed in the audits of private sector entities. However, GAGAS does add certain requirements beyond the *Statements on Auditing Standards*. Most notably, GAGAS has additional reporting requirements beyond an opinion on the financial statements.

Three reports are required to be issued at the completion of each audit of government entities under GAGAS and as incorporated in OMB Bulletin 93-06, *Audit Requirements for Federal Financial Statements*.<sup>1</sup> These reports are (1) an opinion of the financial statements, (2) a report on internal control structure, and (3) a report on compliance with laws and regulations.

The opinion provides the auditor's assessment of the reliability of the information contained in the financial statements. There are four types of opinions that the auditor can render—Unqualified, Qualified, Adverse, or Disclaimer. An *unqualified* opinion signifies that the information in the financial statements was reliable in all material respects. A *qualified* opinion signifies that, except for specified information in the financial statements, the information is reliable. An *adverse* opinion means the statements are not reliable. Last, a *disclaimer* of opinion signified that the auditor was unable to determine if material information in the statements was reliable.

The report on internal controls provides an assessment, by the auditors, of the effectiveness of internal controls. The report is required to identify any instances of material weaknesses or reportable conditions in internal control that came to the attention of the auditors during the course of the audit. The American Institute of Certified Public Accountants defines a material weakness in internal control as “. . . a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely

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<sup>1</sup> OMB Bulletin 93-06, *Audit Requirements for Federal Financial Statements*, establishes requirements and guidance for auditors to follow in auditing Federal financial statements.

period by employees in the normal course of performing assigned functions.”<sup>2</sup>

The report on compliance with the laws and regulations provides the auditor’s assessment of instances where the agency did not follow or conform materially to requirements of laws and regulations deemed material to the financial operations of that agency. The Office of Management and Budget also provides guidance to the auditors in OMB Bulletin 93–06, as to which general laws and regulations need to be considered during the audit. Starting in fiscal year 1997, agencies’ adherence to the requirements of FFMIA is required to be assessed in the report on compliance with laws and regulations, in accordance with OMB guidance.<sup>3</sup> The Federal Financial Management Improvement Act of 1996 [FFMIA] specifically requires that agencies conform with promulgated Federal Government accounting and systems standards, and use the Government Standard General Ledger. (Many agencies did not materially conform to the requirements of FFMIA and thus, certain agencies that were deemed to be materially in compliance with laws and regulations in fiscal year 1996 were not compliant in fiscal year 1997.)

The subcommittee weighted all these reports equally and assessed grades on a 4 point scale with A = 4, B = 3, C = 2, D = 1, and F = 0. In the financial information category, if an unqualified opinion was rendered by the auditor an A (4 points) was given, a qualified opinion received a C (2 points) and a disclaimer received an F (0 points). There were no adverse opinions rendered in fiscal years 1996 or 1997, however an adverse opinion would also receive an F.

If no material weaknesses in internal controls were reported, the agency received an A (4 points). Conversely, if there were material weaknesses reported an F (0 points) was given to the agency in this category.

Similarly, if the auditor reported the agency had no known instances of non-compliance with laws and regulations an A (4 points) was awarded and if material non-compliances were reported an F (0 points) was given.

These grades were then averaged (with equal weight) to determine the overall grade for the agency.

If no report was completed and provided prior to March 31, 1998, then an incomplete was initially assessed. As reports became available, the agency’s grade was determined. The grades included in this report are based on audit reports issued as of the publication of this report. By law, agencies are required to submit audited financial statements to the Director of OMB by March 1st of each year starting in 1997 for the preceding fiscal year. This due date is 5 months after the close of the Federal Government’s fiscal year on September 30th.

<sup>2</sup> *Codification of Statements on Auditing Standards (Including Statements on Standards for Attestation Engagements), Numbers 1 to 82*, American Institute of Certified Public Accountants, as of Jan. 1, 1997; AU sec. 325.15.

<sup>3</sup> OMB issued a memorandum dated Sept. 9, 1997, for agencies and auditors to use in assessing compliance with FFMIA. This interim guidance was to be followed in audits of Federal financial statements for fiscal year 1997.

## APPENDIX B—MAJOR FEDERAL FINANCIAL MANAGEMENT LEGISLATION

| Public Law                                                                                                                     | Key Financial Management Provisions <sup>1</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|--------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Budget and Accounting Procedures Act of 1950<br/>(Chapter 946, 64 Stat. 832)</p>                                            | <ul style="list-style-type: none"> <li>• The Budget and Accounting Procedures Act of 1950 provided that the maintenance of accounting systems and producing of financial reports with respect to the operations of Executive agencies be the responsibility of the Executive branch and that the auditing for the Government be conducted by the Comptroller General to determine the extent to which accounting and related financial reporting fulfill the purposes specified, financial transactions have been consummated in accordance with laws, regulations, or other requirements, and adequate internal financial control over operations is exercised.</li> <li>• The Comptroller General was given the responsibility of prescribing accounting and auditing principles and standards to be followed in the preparation of financial reports by Executive agencies and by the GAO in the audit of the financial transactions of each Executive, Legislative, and Judicial agency.</li> </ul> |
| <p>Inspector General Act of 1978, as amended by the Inspector General Act Amendments of 1988<br/>(P.L. 95–452 and 100–504)</p> | <ul style="list-style-type: none"> <li>• The Inspector General Act (IG Act) requires that Inspectors General perform audits in accordance with generally accepted government auditing standards.</li> <li>• The Chief Financial Officers Act of 1990, as expanded by the Government Management Reform Act, and amended by the Federal Financial Management Improvement Act, has demanded shifts in the focus of the Inspectors' General work.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |

| Public Law                                                                                                                            | Key Financial Management Provisions <sup>1</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|---------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Federal Managers' Financial Integrity Act of 1982<br/>(P.L. 97-255)</p>                                                            | <ul style="list-style-type: none"> <li>• The Federal Managers' Financial Integrity Act of 1982 (FMFIA) required that internal accounting and administrative controls of each Executive agency be established in accordance with standards prescribed by the Comptroller General, and shall provide reasonable assurance that: obligations and costs are in compliance with applicable law; assets are safeguarded from waste, loss, unauthorized use, or misappropriation; and revenues and expenditures applicable to agency operations are properly recorded and accounted for.</li> <li>• The head of each agency is required to report to the President and Congress whether the agency's systems of internal accounting and administrative control fully comply with the Comptroller General's requirements. For all material weaknesses, the agency head must describe in the report the plan and schedule for correcting any such weaknesses.</li> </ul>                                                                                                                                                                                                                                             |
| <p>Debt Collection Act of 1982, as amended, and Debt Collection Improvement Act of 1996<br/>(P.L. 97-365 and 104-134, sec. 31001)</p> | <ul style="list-style-type: none"> <li>• The Debt Collection Act, as amended, provides greater powers to Federal agencies in collecting debts owed to the Federal Government including: reporting a delinquent debtor to a consumer reporting agency; offsetting the salary of Federal employees who are delinquent in the payment of debts; disclosing to a Federal lending agency that an applicant has a tax delinquency and deny such individual credit; disclosing a taxpayer's address to an agency to use for purposes of collecting delinquent debt; administratively offsetting all Federal payments, including tax refunds; garnishing wages; and charging of interest and penalties on any debt.</li> <li>• Agencies are required to report to the Director of the Office of Management and Budget and the Secretary of the Treasury at least once a year information regarding its debt collection activities. Further, the Secretary of the Treasury must report that information to Congress annually and provide a one-time report, not later than April 1999, to Congress on the collection services provided by it and other entities collecting on behalf of Federal agencies.</li> </ul> |

| Public Law                                                              | Key Financial Management Provisions <sup>1</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                         | <ul style="list-style-type: none"> <li>• Agencies are required to make Federal payments to individuals by electronic fund transfer, except for tax refunds.</li> <li>• Agencies, except for the IRS, can contract with a collection service to pursue outstanding debts of the agency or to sell debt over 90 days delinquent.</li> <li>• Agencies are required to collect the taxpayer identification number of any individual or entity doing business with the Government.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Chief Financial Officers Act of 1990<br>(P.L. 101–576)                  | <ul style="list-style-type: none"> <li>• The Chief Financial Officers Act of 1990 (CFO Act) creates a new leadership structure for Federal financial management, including the creation of a Deputy Director of Management, a Controller who advises the Deputy Director, and an Office of Federal Financial Management within the Office of Management and Budget. The Deputy Director is responsible for providing financial management leadership including the establishment and oversight of Federal financial policies and practices.</li> <li>• The Office of Management and Budget is required by the CFO Act to prepare and submit to Congress a governmentwide five year financial management plan. The plan describes the planned activities of OMB and the agency CFOs over the next five years to improve financial management.</li> <li>• The CFO Act also requires that 24 agencies have Chief Financial Officers and Deputy Chief Financial Officers and lays out their authorities and functions. It also stipulates the qualifications and responsibilities for each of the positions.</li> </ul> |
| Government Management Reform Act of 1994<br>(P.L. 103–356) <sup>2</sup> | <ul style="list-style-type: none"> <li>• Government Management Reform Act of 1994 (GMRA) expands requirements for Executive branch agencies contained in section 303(a) of the CFO Act.</li> <li>• GMRA requires all 24 agencies covered under the CFO Act to have agency-wide audited financial statements, beginning with fiscal year 1996. Those statements, due March 1, 1997, and each year thereafter, must cover all accounts and associated activities.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |

| Public Law                                                                                   | Key Financial Management Provisions <sup>1</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|----------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                              | <ul style="list-style-type: none"> <li>• GMRA provides that, for each audited financial statement required from the agency, the auditor (the Inspector General, independent public accountant, or GAO) must submit a report on the audit to the head of the agency. This report is to be prepared in accordance with generally accepted government auditing standards.</li> <li>• GMRA requires that a consolidated financial statement for all accounts and associated activities of the Executive branch be prepared by the Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget, for fiscal year 1997 and each year thereafter. Such statements are to be audited by the Comptroller General. The audited financial statements must be submitted to the President and Congress by March 31, 1998.</li> </ul>                                                                                                                                                                                                                                                                                                                                                             |
| <p>Federal Financial Management Improvement Act of 1996<br/>(Title VIII of P.L. 104–208)</p> | <ul style="list-style-type: none"> <li>• The Federal Financial Management Improvement Act of 1996 (FFMIA) requires that agencies conform to promulgated Federal Government accounting and systems standards, and use the U.S. Government Standard General Ledger.</li> <li>• FFMIA requires auditors performing financial audits to report whether agencies' financial management systems comply substantially with Federal accounting standards, financial systems requirements, and the Government's Standard General Ledger at the transaction level.</li> <li>• For agencies that are not in material compliance with the standards described above, the head of the agency, in consultation with the Director of the Office of Management and Budget, must prepare a remediation plan that addresses the problems. This plan shall include resources, remedies, and intermediate target dates necessary to bring the agency's financial management systems into substantial compliance. The remediation plan shall bring the agency's financial management systems into substantial compliance within 3 years after the date a determination is made by the auditors that the agency is not in compliance.</li> </ul> |

| Public Law | Key Financial Management Provisions <sup>1</sup>                                                                                                                                                                                                                                                                                                                                                                                                                    |
|------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|            | <ul style="list-style-type: none"> <li>• The Director of the Office of Management and Budget is required to report to Congress, not later than March 31 of each year, regarding implementation on FFMIA.</li> <li>• The Comptroller General is required to report to Congress, no later than October 1 of each year, concerning compliance with the requirements of FFMIA and the adequacy of applicable accounting standards of the Federal Government.</li> </ul> |

<sup>1</sup> These laws, except FFMIA, are compiled in Laws Related to Federal Financial Management, House Report 104–745. FFMIA is included in Appendix C to this report.

<sup>2</sup> The section of GMRA that deals with financial management is also referred to as the “Federal Financial Management Act of 1994.”

APPENDIX C—PUBLIC LAW 104–208, TITLE VIII—FEDERAL  
FINANCIAL MANAGEMENT IMPROVEMENT ACT

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TITLE VIII—FEDERAL FINANCIAL MANAGEMENT  
IMPROVEMENT

**SEC. 801. SHORT TITLE.**

This title may be cited as the “Federal Financial Management Improvement Act of 1996.”

**SEC. 802. FINDINGS AND PURPOSES.**

(a) FINDINGS.—The Congress finds the following:

(1) Much effort has been devoted to strengthening Federal internal accounting controls in the past. Although progress has been made in recent years, Federal accounting standards have not been uniformly implemented in financial management systems for agencies.

(2) Federal financial management continues to be seriously deficient, and Federal financial management and fiscal practices have failed to—

(A) identify costs fully;

(B) reflect the total liabilities of congressional actions;

and

(C) accurately report the financial condition of the Federal Government.

(3) Current Federal accounting practices do not accurately report financial results of the Federal Government or the full costs of programs and activities. The continued use of these practices undermines the Government’s ability to provide credible and reliable financial data and encourages already widespread Government waste, and will not assist in achieving a balanced budget.

(4) Waste and inefficiency in the Federal Government undermine the confidence of the American people in the government and reduce the federal Government’s ability to address vital public needs adequately.

(5) To rebuild the accountability and credibility of the Federal Government, and restore public confidence in the Federal Government, agencies must incorporate accounting standards and reporting objectives established for the Federal Government into their financial management systems so that all the assets and liabilities, revenues, and expenditures or expenses, and the full costs of programs and activities of the Federal Government can be consistently and accurately recorded, monitored, and uniformly reported throughout the Federal Government.

(6) Since its establishment in October 1990, the Federal Accounting Standards Advisory Board (hereinafter referred to as the “FASAB”) has made substantial progress toward developing and recommending a comprehensive set of accounting concepts and standards for the Federal Government. When the accounting concepts and standards developed by FASB are incorporated into Federal financial management systems, agencies will be able to provide cost and financial information that will assist the Congress and financial managers to evaluate the cost and performance of Federal programs and activities, and will therefore provide important information that has been lacking, but is needed for improved decision making by financial managers and the Congress.

(7) The development of financial management systems with the capacity to support these standards and concepts will, over the long term, improve Federal financial management.

(b) PURPOSE.—The purposes of this Act are to—

(1) provide for consistency of accounting by an agency from one fiscal year to the next, and uniform accounting standards throughout the Federal Government;

(2) require Federal financial management systems to support full disclosure of Federal financial data, including the full costs of Federal programs and activities, to the citizens, the Congress, the President, and agency management, so that programs and activities can be considered based on their full costs and merits;

(3) increase the accountability and credibility of federal financial management;

(4) improve performance, productivity and efficiency of Federal Government financial management;

(5) establish financial management systems to support controlling the cost of Federal Government;

(6) build upon and complement the Chief Financial Officers Act of 1990 (Public Law 101–576; 104 Stat. 2838), the Government Performance and Results Act of 1993 (Public Law 103–62; 107 Stat. 285) and the Government Management Reform Act of 1994 (Public Law 103–356; 108 Stat. 3410); and

(7) increase the capability of agencies to monitor execution of the budget by more readily permitting reports that compare spending of resources to results of activities.

#### **SEC. 803 IMPLEMENTATION OF FEDERAL FINANCIAL MANAGEMENT IMPROVEMENTS.**

(a) IN GENERAL.—Each agency shall implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level.

(b) AUDIT COMPLIANCE FINDING.—

(1) IN GENERAL.—Each audit required by section 3521(e) of title 31, United States Code, shall report whether the agency financial management systems comply with the requirements of subsection (a).

(2) CONTENT OF REPORTS.—When the person performing the audit required by section 3521(e) of title 31, United States

Code, reports that the agency financial management systems do not comply with the requirements of subsection (a), the person performing the audit shall include in the report on the audit—

(A) the entity or organization responsible for the financial management systems that have been found not to comply with the requirements of subsection (a);

(B) all facts pertaining to the failure to comply with the requirements of subsection (a), including—

(i) the nature and extent of the noncompliance including areas in which there is substantial but not full compliance;

(ii) the primary reason or cause of the noncompliance;

(iii) the entity or organization responsible for the non-compliance; and

(iv) any relevant comments from any responsible officer or employee; and

(C) a statement with respect to the recommended remedial actions and the time frames to implement such actions.

(c) COMPLIANCE IMPLEMENTATION.—

(1) DETERMINATION.—No later than the date described under paragraph (2), the Head of an agency shall determine whether the financial management systems of the agency comply with the requirements of subsection (a). Such determination shall be based on—

(A) a review of the report on the applicable agency-wide audited financial statement;

(B) any other information the Head of the agency considers relevant and appropriate.

(2) DATE OF DETERMINATION.—The determination under paragraph (1) shall be made no later than 120 days after the earlier of—

(A) the date of the receipt of an agency-wide audited financial statement; or

(B) the last day of the fiscal year following the year covered by such statement.

(3) REMEDIATION PLAN.—

(A) If the Head of an agency determines that the agency's financial management systems do not comply with the requirements of subsection (a), the head of the agency, in consultation with the Director, shall establish a remediation plan that shall include resources, remedies, and intermediate target dates necessary to bring the agency's financial management systems into substantial compliance.

(B) If the determination of the head of the agency differs from the audit compliance findings required in subsection (b), the Director shall review such determinations and provide a report on the findings to the appropriate committees of the Congress.

(4) TIME PERIOD FOR COMPLIANCE.—A remediation plan shall bring the agency's financial management systems into substantial compliance no later than 3 years after the date a

determination is made under paragraph (1), unless the agency, with concurrence of the Director—

(A) determines that the agency's financial management systems cannot comply with the requirements of subsection (a) within 3 years;

(B) specifies the most feasible date for bringing the agency's financial management systems into compliance with the requirements of subsection (a); and

(C) designates an official of the agency who shall be responsible for bringing the agency's financial management systems into compliance with the requirements of subsection (a) by the date specified under subparagraph (B).

#### **SEC. 804. REPORTING REQUIREMENTS.**

(a) **REPORTS BY THE DIRECTOR.**—No later than March 31 of each year, the Director shall submit a report to the Congress regarding implementation of this Act. The Director may include the report in the financial management status report and the 5-year financial management plan submitted under section 3512(a)(1) of title 31, United States Code.

(b) **REPORTS BY THE INSPECTOR GENERAL.**—Each Inspector General who prepares a report under section 5(a) of the Inspector General Act of 1978 (5 U.S.C. App.) shall report to Congress instances and reasons when an agency has not met the intermediate target dates established in the remediation plan required under section 3(c). Specifically the report shall include—

(1) the entity or organization responsible for the non-compliance;

(2) the facts pertaining to the failure to comply with the requirements of subsection (a), including the nature and extent of the non-compliance, the primary reason or cause for the failure to comply, and any extenuating circumstances; and

(3) a statement of the remedial actions needed to comply.

(c) **REPORTS BY THE COMPTROLLER GENERAL.**—No later than October 1, 1997, and October 1, of each year thereafter, the Comptroller General of the United States shall report to the appropriate committees of the Congress concerning—

(1) compliance with the requirements of section 3(a) of this Act, including whether the financial statements of the Federal Government have been prepared in accordance with applicable accounting standards; and

(2) the adequacy of applicable accounting standards for the Federal Government.

#### **SEC. 805. CONFORMING AMENDMENTS.**

(a) **AUDITS BY AGENCIES.**—Section 3521(f)(1) of title 31, United States Code, is amended in the first sentence by inserting “and the Controller of the Office of Federal Financial Management” before the period.

(b) **FINANCIAL MANAGEMENT STATUS REPORT.**—Section 3512(a)(2) of title 31, United States Code, is amended by—

(1) in subparagraph (D) by striking “and” after the semicolon;

(2) by redesignating subparagraph (E) as subparagraph (F); and

(3) by inserting after subparagraph (D) the following:

“(E) a listing of agencies whose financial management systems do not comply substantially with the requirements of Section 3(a) the Federal Financial Management Improvement Act of 1996, and a summary statement of the efforts underway to remedy the noncompliance; and”

(c) INSPECTOR GENERAL ACT OF 1978.—Section 5(a) of the Inspector General Act of 1978 is amended—

(1) in paragraph (11) by striking “and” after the semicolon;

(2) in paragraph (12) by striking the period and inserting “; and”; and

(3) by adding at the end the following new paragraph:

“(13) the information described under section 5(b) of the Federal Financial Management Improvement Act of 1996.”

#### **SEC. 806. DEFINITIONS.**

For purposes of this title:

(1) AGENCY.—The term “agency” means a department or agency of the United States Government as defined in section 901(b) of title 31, United States Code.

(2) DIRECTOR.—The term “Director” means the Director of the Office of Management and Budget.

(3) FEDERAL ACCOUNTING STANDARDS.—The term “Federal accounting standards” means applicable accounting principles, standards, and requirements consistent with section 902(a)(3)(A) of title 31, United States Code.

(4) FINANCIAL MANAGEMENT SYSTEMS.—The term “financial management systems” includes the financial systems and the financial portions of mixed systems necessary to support financial management, including automated and manual processes, procedures, controls, data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions.

(5) FINANCIAL SYSTEM.—The term “financial system” includes an information system, comprised of one or more applications, that is used for—

(A) collecting, processing, maintaining, transmitting, or reporting data about financial events;

(B) supporting financial planning or budgeting activities;

(C) accumulating and reporting costs information; or

(D) supporting the preparation of financial statements.

(6) MIXED SYSTEM.—The term “mixed system” means an information system that supports both financial and nonfinancial functions of the Federal Government or components thereof.

#### **SEC. 807. EFFECTIVE DATE.**

This title shall take effect for the fiscal year ending September 30, 1997.

#### **SEC. 808. REVISION OF SHORT TITLES.**

(a) Section 4001 of Public Law 104–106 (110 Stat. 642; 41 U.S.C. 251 note) is amended to read as follows:

**“SEC. 4001. SHORT TITLE.**

“This division and division E may be cited as the ‘Clinger-Cohen Act of 1996’.”

(b) Section 5001 of Public Law 104–106 (110 Stat. 679; 40 U.S.C. 1401 note) is amended to read as follows:

**“SEC. 5001. SHORT TITLE.**

“This division and division D may be cited as the ‘Clinger-Cohen Act of 1996’.”

(c) Any reference in any law, regulation, document, record, or other paper of the United States to the Federal Acquisition Reform Act of 1996 or to the Information Technology Management Reform Act of 1996 shall be considered to be a reference to the Clinger-Cohen Act of 1996.

This Act may be cited as the “Treasury, Postal Service, and General Government Appropriations Act, 1997”.

## APPENDIX D—INDEX OF WITNESSES

---

BROWN, June Gibbs, Inspector General, Department of Health and Human Services, April 21/24.

CALBOM, Linda M., Director, Civil Audits, Accounting and Information Management Division, U.S. General Accounting Office, April 1.

CALDER, Philip T., Chief Accountant, Accounting and Information Management Division, U.S. General Accounting Office, April 1/June 18.

CLARK Jr., David L., Director, Audit Oversight and Liaison, Accounting and Information Management Division, U.S. General Accounting Office, April 21.

COLLINS, Susan, Senator, chairman of the Permanent Subcommittee on Investigations, U.S. Senate, April 21.

DACEY, Robert F., Director, Consolidated Audit and Computer Security Issues, Accounting and Information Management Division, April 1.

DeSEVE, G. Edward, Controller and Acting Deputy Director for Management, Office of Management and Budget, April 1.

DEVLIN, Daniel R., Deputy Assistant Inspector General for Audit, Social Security Administration, April 17.

DODARO, Gene L., Assistant Comptroller General, Accounting and Information Management Division, U.S. General Accounting Office, April 1/15/16/June 18.

DYER, John R., Acting Principal Deputy Commissioner, Social Security Administration, April 17.

FUNK, Sherman M., former Inspector General, Department of State and Department of Commerce, April 21.

GAFFNEY, Susan M., Inspector General, Department of Housing and Urban Development, April 21.

GARDINER, Pamela, Assistant Inspector General for Audit, Social Security Administration.

HARPER, Edwin L., Former Deputy Director, Office of Management and Budget, April 21.

HAWKE, John D., Undersecretary for Domestic Finance, Department of the Treasury, April 1.

HILL, Eleanor, Inspector General, Department of Defense, April 16/21.

JACOBSON, Lisa G., Director of Defense Audits, Accounting and Information Management Division, U.S. General Accounting Office, April 16.

JASPER, Herbert N., member, Standing Panel on Executive Organization and Management, National Academy of Public Administration, April 15.

KUTZ, Gregory D., Associate Director, Governmentwide Accounting and Financial Management, Accounting and Information Management Division, U.S. General Accounting Office, April 15.

LAYTON, John C., former Inspector General, Department of Energy, April 21.

LIEBERMAN, Robert J., Assistant Inspector General for Auditing, Department of Defense, April 16.

LIGHT, Paul C., director, Public Policy Program, the Pew Charitable Trusts, April 21.

MARES, Michael E., chair, Tax Executive Committee, American Institute of Certified Public Accountants, April 15.

MIN DEPARLE, Nancy-Ann, Administrator, Health Care Financing Administration, April 24.

MURPHY, Gerald, Senior Advisor to the Undersecretary for Domestic Finance, Department of the Treasury, April 1.

MUSICK, Anthony, former Chief Financial Officer, Internal Revenue Service, April 15.

NAUGHTON, James R., former professional staff and counsel, Committee on Government Operations, U.S. House of Representatives, April 21.

ROSSOTTI, Charles O., Commissioner of Internal Revenue, Internal Revenue Service, April 15.

SEBASTIAN, Steven J., Assistant Director, Governmentwide Accounting and Financial Management, Accounting and Information Management Division, U.S. General Accounting Office, April 15.

SCHATZ, Thomas, president, Citizens Against Government Waste, June 18.

SPECTOR, Eleanor, Director of Defense Procurement, Department of Defense, April 16.

STANTON, Thomas H., chair, Standing Panel on Executive Organization and Management, National Academy of Public Administration, April 15.

STEINHOFF, Jeffrey C., Director of Planning and Reporting, Accounting and Information Management Division, U.S. General Accounting Office, June 18.

TOYE, Nelson, Deputy Chief Financial Officer, Department of Defense, April 16.

TUCKER, Stefan, chairman-elect, Section on Taxation, American Bar Association, April 15.

WARREN, David R., Director of Defense Management, National Security and International Affairs Division, U.S. General Accounting Office, April 16.

WILLIAMS, David C., Inspector General, Social Security Administration, April 17.

WILLIS, Lynda D., Director, Tax Policy and Administration Issues, General Government Division, U.S. General Accounting Office, April 15.